EVIDENCE AND PROCEEDINGS

[illegible]

COMMISSION

[illegible]

TRADING IN GRAIN FUTURES

APRIL [illegible]

The Commissioners

Sir Josiah Stamp, G.B.E.

W. Sanford Evans, M.L.A., Manitoba Chief Justice J. T. Brown of Saskatchewan

Canada. Trading in Grain Futures, Commission on
[Commissions and Committees of Inquiry]

EVIDENCE AND PROCEEDINGS

BEFORE THE

COMMISSION

TO INQUIRE INTO

TRADING IN GRAIN FUTURES

APRIL, 1931

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COURT OF KING'S BENCH, SASKATCHEWAN

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For the Canadian Co-operative Wheat Producers, Limited—

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Secretary to the Commission :

L. B. PEARSON, FIRST SECRETARY,
DEPARTMENT OF EXTERNAL AFFAIRS, OTTAWA

FOREWORD

The Evidence and Proceedings of the Commission, appointed by the Dominion Government of Canada, under the chairmanship of Sir Josiah Stamp, "to inquire into and report upon what effect, if any, the dealing in grain futures has upon the price received by the producer," is issued in response to many requests received for this detailed information.

It is obvious, of course, that accounts of the proceedings which have heretofore been published did not give a full report of the evidence. The opportunity is, therefore, now presented, of studying what was actually said by Commissioners, Counsel, and the witnesses who expressed a wide variety of views on the important subject of Futures Trading and its effect upon the price paid to the Producer.

This is a reproduction of the official reporters' transcript of evidence and proceedings taken at all public sessions of the Commission held in Winnipeg, Regina and Calgary.

Informal conversations were held by the Commission in Minneapolis, Chicago and New York with persons whom the Commission thought might help in the solution of their problem, but no transcript of this evidence was taken.

REPORT OF COMMISSION

For the benefit of those desiring to secure the "Report of the Commission to enquire into Trading in Grain Futures," we might state that it is available from the King's Printer, Ottawa, Canada, at 25c per copy (remittance with order).

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CANADA

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LIST OF WITNESSES—*Concluded*

SESSIONS

Royal Commission on Grain Futures

10 a.m., April 13, 1931.
Royal Alexandra Hotel,
WINNIPEG.

SIR JOSIAH STAMP (Chairman)—This is the opening session of a Commission appointed to inquire into and report upon what effect, if any, the dealing in grain futures has upon the price received by the producer. The Commission regards this subject as primarily an economic one, and they propose to proceed by hearing witnesses who are able from one point of view or another to speak for the producer and his interest, and to get their answers to this question, to adduce the facts upon which their answers are based, their own inferences and theories based on those facts, or their opinions.

The Commission propose to proceed mainly by way of hearing those statements from witnesses, and then themselves examining witnesses upon them to bring out any aspect within the limit which is of interest to the Commission. They do not regard this Commission as in any way a contest between two parties, nor do they regard the ordinary procedure of a judicial character as being the most appropriate for our proceedings. Therefore, although we shall proceed primarily in that way, we are quite open to admit other methods that will expedite our proceedings, and enable us to get at those facts, inferences, and opinions. We are therefore, quite ready to have the evidence of a witness brought out by cross examination by counsel, that is, his evidence brought out in chief, reserving to ourselves always the right to stop that particular procedure at any point when we have heard enough for ourselves, or when we think it is necessary. But we realize that may be a method that commends itself to some of you, and it may indeed in the case of some of the witnesses be a shorter method of bringing out the facts that are wanted. But, in the main, we would prefer the method that is customary in the examination of economic matters.

I would like the fact to be understood that it will be a great convenience to the Commission if everyone proposing to give evidence, or to cross examine witnesses, would get into touch with our counsel and adviser, Mr. Sweatman, in order that he may be seized of the nature of the evidence to be brought before us, and the way it is presented. He may perhaps assist the witness or the cross examining counsel, by his advice, showing where the Commissioners are especially interested, where they think it is within the limit and in general to co-ordinate the evidence that is to be given. As I say, it would be of great assistance to the Commission if every witness would first get in touch with counsel Sweatman, and that will enable us to conduct our proceedings without gaps, and without overlapping.

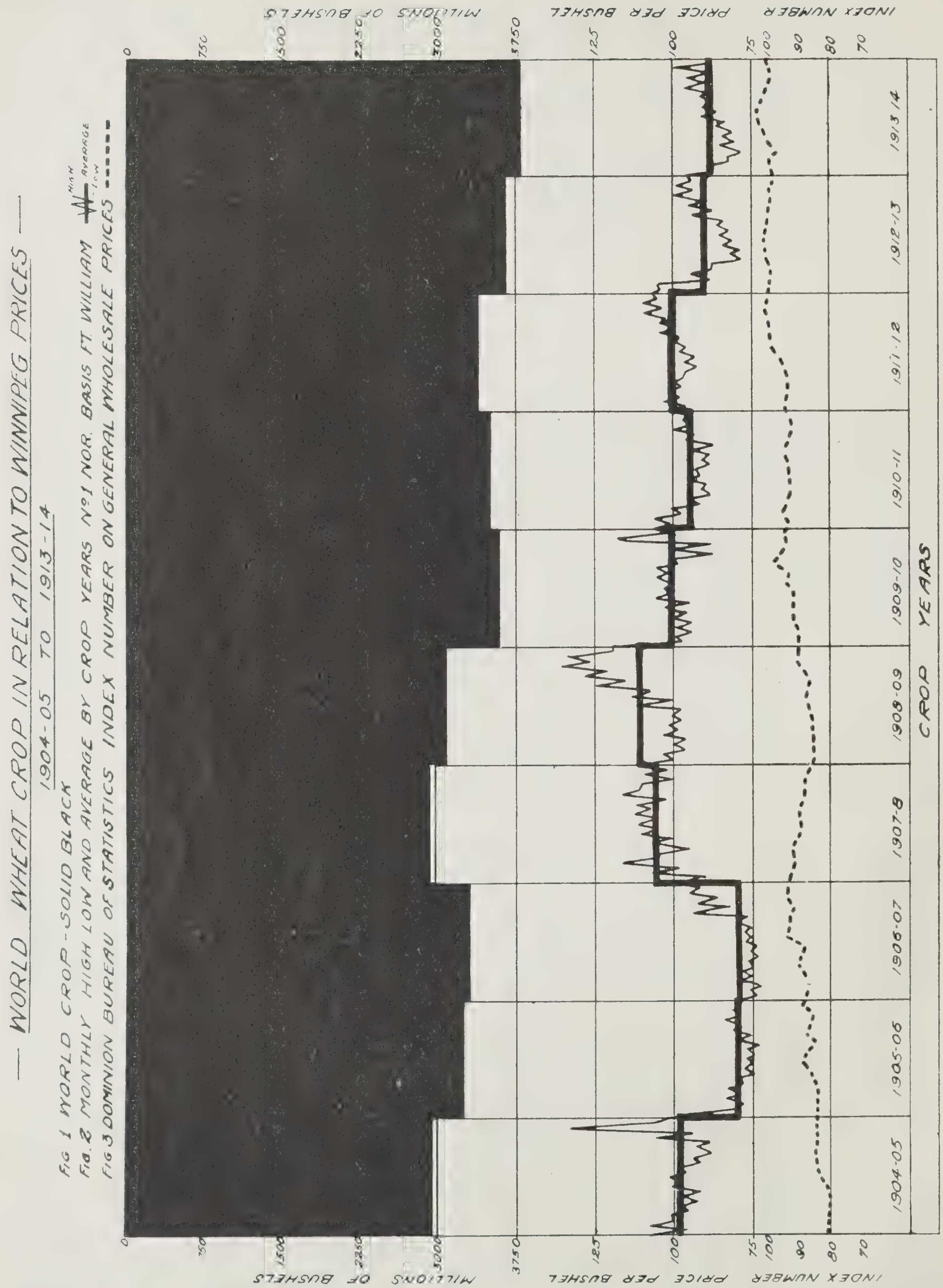
Mr. Pearson, our secretary, will arrange our agenda, the order of witnesses, and if anybody wants to know anything about the business procedure, times for calling, and the like, they should put themselves in touch with him.

Ordinarily we shall sit at 10 and at 2.30. The actual time of closing will be round about 12.30 and 5, but that will be subject, of course, to the immediate necessities of the case, the completion of witnesses' evidence, and the like.

I think I have said enough now to indicate the way in which we want to go on, and I will now ask those who are going to open the evidence for us to do so. I think Mr. Pitblado is the first.

MR. PITBLADO—I am appearing, Mr. Chairman, for the Winnipeg Grain Exchange, and my partner, Mr. Hoskin, is assisting me, and we felt that probably by some preparation on our part in bringing witnesses before you the work of the Commission would be facilitated. That is our only object, sir. We realize that time is short, and that after all you are after the solution of the subject in as short a time as possible. What we had proposed to do, sir, was for us to in our evidence, bring before the Commission the different types of handlers and buyers of grain, and show the use they make and have been making for many years of the futures market, and from their practical experience suggest their opinion, as you, Mr. Chairman, put it, of the answer to the question.

EXHIBIT No. 3


— WORLD WHEAT CROP IN RELATION TO WINNIPEG PRICES —
1904-05 TO 1913-14
FIG 1 WORLD CROP - SOLID BLACK
FIG. 2 MONTHLY HIGH LOW AND AVERAGE BY CROP YEARS No 1 NOR. BASIS FT. WILLIAM
FIG 3 DOMINION BUREAU OF STATISTICS INDEX NUMBER ON GENERAL WHOLESALE PRICES
HIGH
AVERAGE
LOW
MILLIONS OF BUSHELS
0
750
1500
2250
3000
3750
PRICE PER BUSHEL
125
100
75
INDEX NUMBER
100
90
80
70
1904-05
1905-06
1906-07
1907-8
1908-09
1909-10
1910-11
1911-12
1912-13
1913-14
CROP YEARS

In addition to that there will probably be presented by us a couple of theoretical men, economists by profession, if I may use that term. With that, that is all I am going to take the time of the Commission now.

I think the evidence we will produce will all be material, but we are doing it with a view of opening to this Commission the operations of every man who operates on the futures market, so that you can find out what he does, and whether he performs any useful function. And in the last result, what is the effect on the price that is paid the producer.

I did mention to Mr. Sweatman generally on Saturday what line we were taking. I wasn't able to tell him the names because I didn't know just what witnesses would be called.

First of all, Mr. Chairman, I think all of the members of the Commission ought to have the report of the Royal Grain Inquiry Commission that is published by Parliament, what is known as the Turgeon Commission. That was issued in the year 1925. I don't know whether you, Mr. Chairman, have a copy of it.

THE CHAIRMAN—I am well acquainted with it, but if you are going to make references to it we had better have it in front of us.

MR. PITBLADO—I have two copies, and we had better file them as exhibits.

THE CHAIRMAN—We have copies in our office.

(Royal Grain Inquiry Commission, The Turgeon report, produced and marked EXHIBIT NO. 1.)

MR. PITBLADO—Special reference to the futures market are to be found at pages 130 to 139. I do not propose to read them all. They are there for the members of the Commission.

Realizing that the members of the Commission will probably want reference to any literature that is available, I propose also to put in a pamphlet published in February 1931 called "Wheat Studies of the Food Research Institute" in which there is an article "Speculating and Short Selling on the Price of Wheat" by Mr. Alonzo Taylor.

THE CHAIRMAN—Are you calling him as a witness?

MR. PITBLADO—We could not get him here in time, sir. If you are taking evidence in Chicago, when you are there there is a possibility of our being able to do so, but we communicated with him after we knew of the sittings and found it was impossible to get him here at this time.

MR. COMMISSIONER BROWN—When was this article published?

MR. PITBLADO—February, 1931, the issue called "Wheat Studies of Food Research Institute."

(Wheat Studies of Food Research Institute, referred to, produced and marked EXHIBIT NO. 2.)

MR. PITBLADO—The Grain Exchange has had prepared, Mr. Chairman, a series of graphs. These are taken from the statistics, and have attached to them these statistics where they were prepared from, showing the world's wheat crop in relation to Winnipeg prices. There are two of them, because one of them goes from 1904 to 1914, and the other from 1920 to 1930.

THE CHAIRMAN—Exhibit 3 will be the one that goes from 1904 to 1914 and exhibit 4 from 1920 to 1930.

(Graph, referred to above, produced and marked EXHIBIT NO. 3.)

(Graph, referred to above, produced and marked EXHIBIT NO. 4.)

MR. PITBLADO—The statistics are attached. The world wheat production is compiled from the International year book of Agricultural statistics. Attached to these sheets are the authorities from which the graph is made up, so that anyone looking at them can check the authority for the statistics that are there, but the graphs are set out from the statistics as they are attached to it.

We have three copies of each of those.

If the members of the Commission will look at exhibit 3 I will just explain the graph. The black body at the top is the world's crop, and the figures on the side, if you will look down to where the first 3,000 that is millions of bushels, that is the millions are left off, so that the crop for the year 1904-1905 the world crop, would be 3,000 millions of bushels, and so on. The year is at the bottom, the crop year at the bottom. So right at the top is shown from these statistics the world crop.

Then the second line is the monthly high-low average, by the crop years, of No. 1 northern, basis Fort William. Low and high is the line that goes up and it varies.

THE CHAIRMAN—Are they average monthly registrations?

MR. PITBLADO—They show the monthly registrations, throughout the year. Then the black solid line shows the average of those through the month.

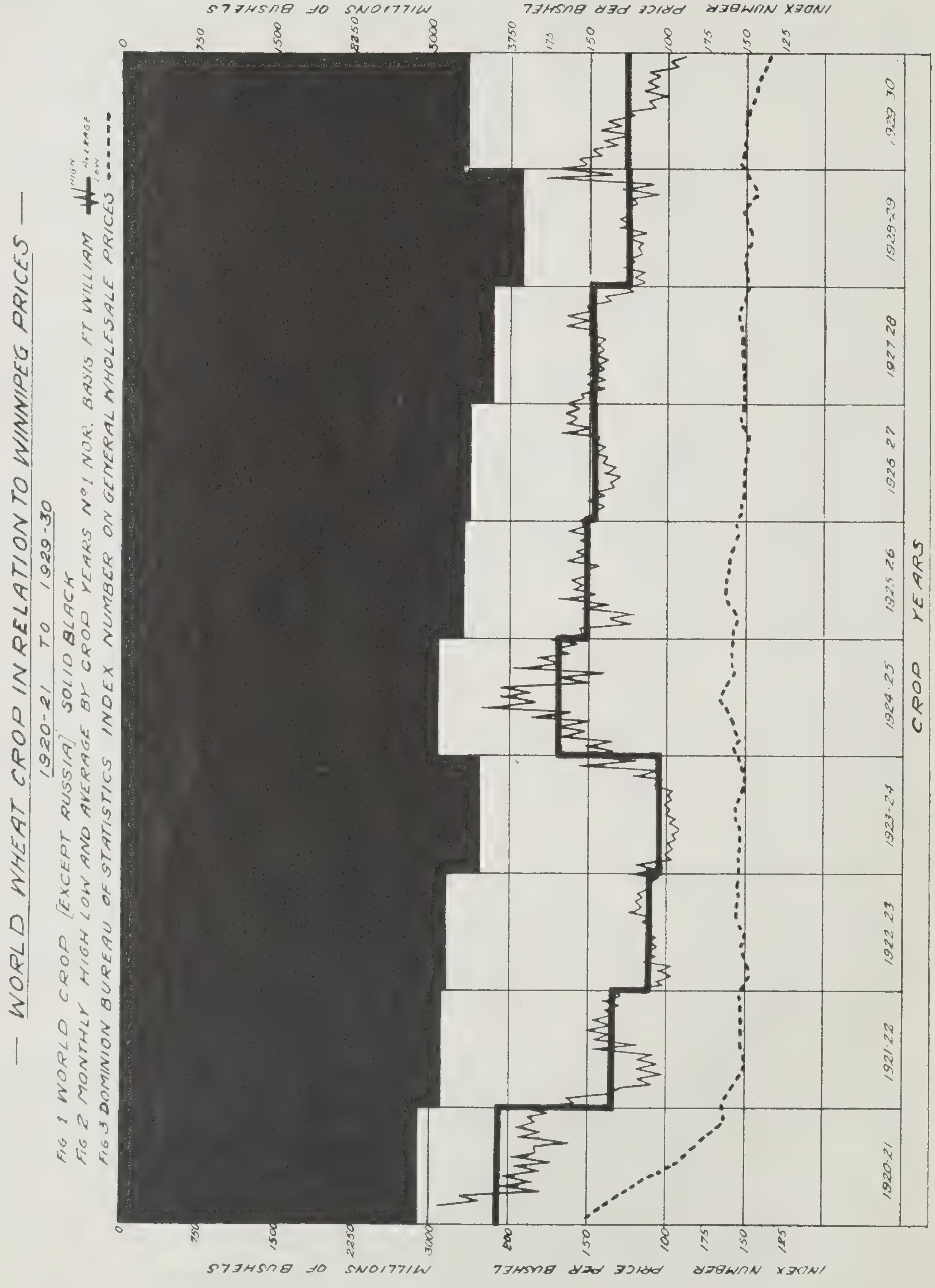
THE CHAIRMAN—Is that an arithmetical average of monthly figures?

MR. PITBLADO—It is the average of twelve figures, the arithmetical average.

THE CHAIRMAN—Regardless of the quantities sold in each month?

MR. PITBLADO—Regardless of the quantities sold in each month, that is the only way that could be made.

EXHIBIT No. 4


— WORLD WHEAT CROP IN RELATION TO WINNIPEG PRICES —
1920-21 TO 1929-30
FIG 1 WORLD CROP (EXCEPT RUSSIA) SOLID BLACK
FIG 2 MONTHLY HIGH LOW AND AVERAGE BY CROP YEARS No 1 NOR. BASIS FT WILLIAM
HIGH
AVERAGE
LOW
FIG 3 DOMINION BUREAU OF STATISTICS INDEX NUMBER ON GENERAL WHOLESALE PRICES
MILLIONS OF BUSHELS
PRICE PER BUSHEL
INDEX NUMBER
0
750
1500
2250
3000
3750
1920-21
1921-22
1922 23
1923-24
1924-25
1925 26
1926 27
1927 28
1928-29
1929 30
CROP YEARS

THE CHAIRMAN—Yes, quite.

MR. PITBLADO—But those two lines, and all I call attention to them is because something will appear on the other chart which strikingly shows how the price, the average price, generally follows the world crop of wheat, that when there is a large crop the price goes down, and when there is a small crop the price goes up. That has been the history.

That is shown on the other one in just the same way. Then there is a bottom line there, that brings in something else, and that is the Dominion Bureau of Statistics Index Number, on general wholesale prices.

That is the Bureau of Statistics at Ottawa issues, I think monthly, statistics taking the general average of wholesale prices, so as to prepare them as they run along. This is on the wholesale basis; there is one on Wholesale and one on Retail. This is what is known as general wholesale prices of commodities. Apparently the second of these charts. The first one shows a fair steady average on wholesale. That runs down through the war. Since the war, 1921, the use of charts shows that the general average of wholesale prices has roughly been going lower. As the price of wheat has been going lower, it does not change as much, but in the general result these averages have gone down. Those charts are there, and I thought we ought to put them in early, so that anyone who wishes to could make use of them, or discuss what they thought was important from these comparisons that are made.

THE CHAIRMAN—About that monthly high and low average of crop years, that price you are comparing with the world crop in the statement you have made, but it is a Winnipeg price.

MR. PITBLADO—It is a Winnipeg price, because we are really investigating the Winnipeg price here before you. I think there will be something before you, probably, Mr. Chairman, before we take prices elsewhere, but at this present time the investigation that you are conducting really has to do with futures in Canada. That may be affected by the futures in other places but we are dealing with the Canadian situation.

That is so far as the charts go, then, Mr. Chairman. Following on I would like to call first the President of the Winnipeg Grain Exchange, Mr. White, who has a short statement that he desires to make.

MR. A. P. WHITE (called)

MR. A. P. WHITE—Mr. Chairman and Gentlemen of the Commission.

On behalf of the members of the Winnipeg Grain Exchange it is my privilege to thank you for having undertaken the investigation which you are about to commence.

Every member of the Winnipeg Grain Exchange is ready to assist and facilitate the work of the Commission. We wish to explain fully the workings of our Exchange system. We are ready to present, to the best of our ability, whatever evidence of an oral or documentary nature you request.

With your permission, Mr. Chairman, I would like to sketch briefly just what the Winnipeg Grain Exchange is and why the "futures" market came into existence.

A grain exchange, corn exchange, board of trade, or whatever it may be called in different countries, is simply a market place for grain where any buyer or seller can appear in person, or through an agent, and reach every other interested buyer or seller by direct word of mouth. To operate the business of the world it is essential that there should be a middleman organization, and the merchants and agents of which this organization consists should be able to get promptly into touch with each other and close their transactions with the least possible delay and difficulty. They need meeting places or markets.

The Winnipeg Grain Exchange—to take it for an example—is an organization for the purpose of providing a room with proper facilities in which traders can meet under such simple rules as are necessary for the orderly conduct of business. It does not even own the land or the building wherein the trading room is provided, but rents the room and an office for its staff. It never buys or sells grain, but only records, and makes available to the public, the prices at which transactions have actually been made in the market. It does not own elevators or store or ship grain. It performs no commercial functions. It pays no dividends, because it makes no profits. It is merely a voluntary association to which any male person of legal age who is eligible for membership can belong.

In the interests of clear and correct thinking on grain problems it is very important that the real nature and function of grain exchange should be recognized. It is very easy to slip into the habit of using the term as a general name for the whole middleman system of grain trading. The fact that the trading room is situated in the building in which a majority of the local grain dealers have rented offices, and that the building is popularly known as "The Grain Exchange," makes the confusion of thought easier. Many persons, no doubt, assume that there is a central organization of all grain trading interests which directs the policy and business methods of all branches of the trade, and that country elevator owners, terminal elevator owners, commission men, millers, and brokers, are united in an association which plans or regulates the business operations of all these interests, and co-ordinates them into some sort of a grain combination. As a matter of fact, there is no such general organization in existence in the grain trade. Each branch may have a trade association of its own, of just the same nature as the associations that exist among merchants in other lines of business, and in the grain trade two or three organizations have been formed for special and limited purposes: such as the Lake Shippers' Clearance Association, to simplify and facilitate the physical movement of grain

through terminals; the Winnipeg Grain and Produce Exchange Clearing Association, which was formed by traders in the futures market for the purpose of clearing their trades; and the Northwest Grain Dealers' Association, which was formed by country elevator operators.

Let me take you back to the year 1900, when grain growing in Western Canada began to assume proportions worthy of notice. In that year, in round figures 2½ million acres were seeded which produced 33½ million bushels of grain. At this time there was no futures market operating in Winnipeg. Grain dealers had to buy from the farmer at a considerable discount under what was believed to be the world price. The reason for this was that by the time the grain got into a marketable position, which sometimes took weeks, if not months, the price had dropped and the dealer was forced to take a loss. The frequency of these losses naturally made dealers, and the banks who were financing them, more cautious. Thus spreads between the prices paid at the station in Western Canada and prices in Liverpool, where most of the wheat was disposed of, were not in proper relationship. The dealer was speculating with a vengeance. He had no way of protecting himself. At times he gained handsomely, and at times he lost heavily. The business was so risky that competition was very limited. Perhaps a few of the dealers of those early days might have wished to go on as they were doing, but Western Canada was raising more grain each year, and in the interests of the producer and the trade a less risky method of handling grain had to be found. For that reason the futures market came into existence in Winnipeg in 1903, and the hedging of grain in Winnipeg became possible.

I will not take up any more of your valuable time now, but being a "futures" broker myself I will, with your permission, appear before you later on, and give you some account of my business activities and of their relation to the rest of the trade.

By Mr. Pitblado:

Q.—You have a list of the members of the Winnipeg Grain Exchange with you, have you not? A.—Yes, sir.

MR. PITBLADO—My object in filing that, Mr. Chairman, is not to give you a list of the names, but to show you the wide membership of the Exchange.

MR. HOSKIN—I will have that filed, Mr. Chairman. The Assistant Secretary has that and he is not here at present.

By the Chairman:

Q.—May I ask a question. 1903 was the year in which the Winnipeg Exchange came into existence? A.—That is the futures markets.

Q.—Did it mould itself on any existing one elsewhere as a full grown thing, or come gradually into existence? A.—I believe it was modelled probably on the lines of other exchange. There was at that time an exchange operating a futures market in Chicago and Minneapolis and in Liverpool.

Q.—And Berlin? A.—Berlin, and I think other European countries had exchange at that time. Just how it was modelled, I couldn't say, Mr. Chairman; at that time I was just a boy.

Q.—It came as a response to a definite need felt at the time. Is that your point? A.—Yes.

Q.—The dealers felt that they had a particular function to perform, and were being compelled to accept a further function, that of taking the risk of price change? A.—Yes.

Q.—They regard their function then of being one of getting from the producer to the final user through performing the functions of trading and concentration and shipping and getting into touch with millers? A.—They found that without a futures market that they had to buy wheat on such a wide margin in order to try and protect themselves, because they had no direct knowledge of what the prices of wheat might be by the time they could sell say to a miller or direct consumer, that they had to work on a very wide margin.

Q.—The point I put to you is that they regarded themselves as discharging certain definite functions, and they were carrying additional functions, that is, of carrying price fluctuations, which they did not want to carry in the future, and the market was brought into existence in order to get rid of the function which they did not want to carry themselves. Is that right? May I ask at the outset whether the only functions in the futures market discharged were those of pure hedging? A.—I was only what you might call a boy at the time, Mr. Chairman; but could I possibly answer it in this way: that the primary object of the futures market was to take care of the hedging?

Q.—That was how it started? A.—Yes, that is the reason for it coming into being.

Q.—I was going into the question later as to the futures market and hedging and additional speculation, whether that was an integral feature from the very beginning, or whether it was found that we could not get a futures market independent of the superstructure of speculation. A.—I think it was found as time went on that it was impossible to carry on hedging transactions without speculation.

Q.—As time went on that was found? A.—That markets were too narrow.

By Mr. Commissioner Brown:

Q.—Have you any idea of the quantity of wheat that was grown on the prairies when that operation was started? A.—No, Mr. Brown, I have not. In 1900, I understand that

there was, as I mentioned, 33½ million bushels of grain, but we could easily get figures for every year.

Q.—Did you say that the futures market was in operation in 1903 for the first? A.—It started in Winnipeg in 1903.

Q.—Have you any idea of the quantity of trades that took place in that year? A.—That is the quantity of futures trade?

Q.—On the market. A.—The Winnipeg Grain Exchange has no records, keeps no records of the volume of futures trading.

By the Chairman:

Q.—Did not then and does not now? A.—No, sir.

By Commissioner Brown:

Q.—So that it is not available to us for any year since then? A.—Not from the Winnipeg Grain Exchange.

By the Chairman:

Q.—Were there any published, unofficial information? A.—There is nothing published.

By Mr. Commissioner Evans:

Q.—Your point is that the Winnipeg Grain Exchange does not control or keep those records? Mr. White has already mentioned that there is a separate association.

WITNESS—All futures trades are cleared through what we call the Winnipeg Grain and Produce Clearing Association which is a separate institution; has nothing to do with the Winnipeg Grain Exchange.

Q.—And is not under the control of your council? A.—No.

By the Chairman:

Q.—But is there any body of figures published back to 1903 which would meet the purpose of the Chief Justice's question, that we could see the immediate impact of the futures market?

MR. PITBLADO—We can find out if the Clearing House has that.

MR. COMMISSIONER BROWN—I would like very much to have that.

MR. PITBLADO—We will take a note and see if that can be got from the Clearing House.

MR. COMMISSIONER BROWN—So that we can get a picture of the amount of trading done on the market as compared with the amount of grain grown on the prairie provinces.

MR. HOSKIN—I will now file the list of members.

MR. PITBLADO—I would like to file a list of members which is shown by the typewritten list of the members of the Winnipeg Grain Exchange.

(List marked exhibit 5.)

With that I would like to file a slip dividing them into the different kinds of members.

(List marked exhibit 5a.)

Q.—That correctly shows the membership, Mr. White? A.—Yes.

MR. COMMISSIONER BROWN—What are the qualifications necessary for membership on the Grain Exchange?

MR. PITBLADO—Would you answer that, Mr. White? A.—In answer to that I think I had better file——

MR. COMMISSIONER BROWN—Just in brief form, Mr. White. A.—He has got to be of the legal age of twenty-one years, a male. The monetary wealth of worth of the party has no particular bearing on whether or not he can become a member. That question though is enquired into when he makes application, but there is no set figure that he has got to be worth.

Q.—He has got to be financially worthy? A.—In the judgment of the Council of the Exchange.

THE CHAIRMAN—Who composes the Council? A.—The members of the Grain Exchange.

Q.—So that they have complete control of new entrants? A.—Yes.

Q.—It does not mean though that everyone of twenty-one years of age can become a member? A.—Applications come before what they call our Membership Committee and afterwards before our Council.

Q.—Must they be already engaged in the business? A.—Not necessarily.

MR. COMMISSIONER BROWN—If he complies with the regulations, whatever your regulations are, may he become a member by paying a fee or is there anything within your power to exclude them regardless of those considerations? A.—The Council have the right to allow anyone to become a member or probably as you say to keep him out, providing that he can meet the necessary qualifications. I never knew of anybody kept out.

THE CHAIRMAN—You never knew of anybody kept out? A.—No.

Q.—Was there any question of their being socially undesirable or would they exercise any limit to the number of members? A.—There is no limiting factor in membership other than the price of the membership.

Q.—That is to say the qualification or entrance fee? A.—The party joining the Exchange is granted a certificate of membership from the Grain Exchange.

MR. PITBLADO—And that certificate is transferable? A.—Yes. And the market value of that certificate fluctuates from time to time according to the demand, and those that have a set price by the Exchange are those that are bought from the treasury where there are none available in the open market.

THE CHAIRMAN—When there is no limit to those coming in at any time why does the value of the membership fee enter into it?

MR. PITBLADO—It is not the same as on the London Stock Exchange where the membership has to be elected every year. Once you are elected to a membership on the Grain Exchange, so long as you conduct yourself in a proper way you can hold your membership for life and you can sell your seat to somebody else if you wish to retire.

THE CHAIRMAN—And sell it at more than it cost?

MR. WHITE—Yes.

Q.—If nobody is excluded why does the cost of entry go to a premium? A.—I do not think the treasury has ever sold a membership on the market in recent years above the entry fee. I think two years ago there were one or two sold through the treasury where there was no membership available in the open market. Since that time it has declined in the market and it was sold at a lower figure than you would have to pay through the Exchange.

Q.—Membership can never rise to a high premium so long as you maintain an open door? A.—No higher than the price put on it by the Exchange.

Q.—Why should anyone buy someone else's seat if there was an open door to come in at that price? A.—Well, if they can buy in the open market for a lower price they will no doubt do so.

MR. COMMISSIONER BROWN—I suppose the price is not stable? A.—No, it is not a fixed price. It can be changed by a vote of the members.

Q.—And it has been changed? A.—Yes, it has been changed.

THE CHAIRMAN—There would be too many coming in if you could not arrange the entrance fee? A.—Yes, we feel that there is a privilege there of some value.

Q.—There are seventy-nine futures brokers out of 463 members? A.—Yes.

MR. PITBLADO—With respect to the question put to you by the Chairman: Has social standing in the community anything to do with entry? A.—Nothing whatever.

Q—Would you enquire into the financial worth and good faith of any entrant? A.—Yes, his financial worth and his business, his past history, his conduct and what kind of business he is going to do.

MR. COMMISSIONER BROWN—The character of the applicant would be a big factor? A.—Yes.

MR. PITBLADO—And also the kind of business he is going to conduct?

THE CHAIRMAN—Business character but not social character?

MR. PITBLADO—Yes, business character but not social standing.

THE CHAIRMAN—No further questions on exhibit 5 and 5a at this juncture?

MR. PITBLADO—I was proposing to call a gentleman who is one of the large operators. That is, he is in charge of country elevators, also handles grain on commission, and also happens to be an exporter and handles terminal elevators. That is, he operates a line of country elevators, he is an operator of terminal elevators and is also an exporter. He is a gentleman who happens to be connected with all these different functions.

MR. COMMISSIONER BROWN—You are aware, Mr. Pitblado, we are limited as to time and I presume you have taken that into consideration?

MR. PITBLADO—Yes, I think it can be done quicker if I ask Mr. Smith to make a statement.

MR. SYDNEY T. SMITH (called)

MR. PITBLADO—With your permission I will leave Mr. Smith to make a statement.

Q.—Mr. Smith, you have been in the grain business for over 30 years? A.—Yes.

Q.—You have been buying and handling grain in elevators in the province of Manitoba? A.—Yes.

Q.—Do your line of country elevators extend beyond Manitoba? A.—Yes, into Saskatchewan and Alberta.

MR. COMMISSIONER BROWN—What is the name of your company?

MR. PITBLADO—I will come to that now.

Q.—You are the president of what line of elevators? A.—The Province Elevator Company.

Q.—That is your country line and that line as I understand it is really owned by the Reliance Grain Company? A.—Yes, the Reliance Grain Company.

Q.—The Reliance Grain Company is a company which owns all the stock of the Province Elevator Company, which is the country elevator line and I believe also owns the terminals at the Head of the Lakes under the name of what? A.—The Reliance Grain Company.

Q.—So that there is this subsidiary which owns that line now? A.—Yes.

Q.—How many country elevators have your Province Company, roughly? A.—We control and operate about 200.

Q.—In Manitoba, Saskatchewan and Alberta? A.—Yes.

Q.—And you have a large terminal elevator at Port Arthur? A.—Yes.

Q.—The capacity of which is what? A.—4,000,000 bushels.

Q.—And your company also does a general commission and brokerage business, that is handling and selling grain on commission for any client who wishes to do that? A.—Yes.

Q.—That is both cash grain and futures? A.—Yes.

Q.—And then I believe you also do an extensive shipping and exporting business? A.—Yes.

Q.—Through a subsidiary company of your own under the name of Smith-Murphy Company in New York? A.—Yes.

Q.—That is subsidiary to your company here? A.—Yes.

Q.—And you say you have been in the grain business for over thirty years? I understand that you started in a small way with a small elevator at Carberry, Man.? A.—Yes.

Q.—Long before there was any futures market? A.—Yes.

Q.—So you have been in the grain business all your life? A.—Yes.

THE CHAIRMAN—The futures market being in existence twenty-eight years?

MR. PITBLADO—Since 1903.

Q.—And you have been in business since? A.—Since 1900.

Q.—These various functions given us cover practically everything that has to do with futures and with the handling of wheat from the producer to the shipping of it? A.—Yes, that is correct.

Q.—I may say that is why I wish to call Mr. Smith as he is considered very representative of the trade.

In the handling of the business at the country elevators—and again I am leading the witness through this because it is historical—the country elevator either buys the wheat from the producer or stores it for the producer? A.—That is correct.

Q.—That is the country elevator takes in the grain and it is either purchased by the elevator or it is stored? A.—Yes.

Q.—And when it is stored for a farmer and only stored and the time comes when that is taken to be disposed of on the market, the person who had it stored sells it again? A.—Yes.

Q.—And it is sold through the operations of the commission merchants? A.—Yes.

Q.—So that cash grain can be taken in the operator may buy the grain or it may be stored and sold on a commission basis? A.—Yes, or it may be bought by the company.

THE CHAIRMAN—It might change hands several times? A.—Yes, the storage tickets are negotiable and it may be bought by the elevator company.

Q.—The elevator company first may buy it, after it is stored and get back the tickets, or the storage tickets may be sold? A.—Yes.

MR. COMMISSIONER BROWN—All at the option of the owner? A.—Yes.

MR.PITBLADO—Are you advised when somebody asks for it ultimately? A.—We do not know as it changes hands.

MR. PITBLADO—Whoever finally owns those tickets the sale of it is made by the elevator company on a commission basis, if they do not buy it themselves? A.—I would not say that it was. A good amount of the storage grain is bought by the elevator company from the farmer or the value of the storage tickets and a fair amount is also shipped forward and sold on commission.

Q.—I say if it was not bought, that is it is shipped forward and has not been bought, as a rule the elevator company acts as a commission agent for the client in the disposal of it? A.—Yes, that is right.

Q.—In connection with the buying of your grain at country points, do you get advice from all those elevators, amounting to about 200 elevators, as to what quantities they are buying? A.—It is the custom at the end of the day to send in a report of what they bought or wired during the day what they had bought. We then total the amount that has been bought in all the elevators and then, by way of hedging it, we sell futures against what we have bought.

MR. COMMISSIONER BROWN—That is the next day? A.—Or we might during the same day if there was a heavy movement of grain.

MR. PITBLADO—Or if there is no heavy movement, at the close of the day you would know how much you bought and then next morning you would go and hedge your purchases on the futures markets? A.—Yes.

Q.—But in an abnormal time or in seasons of the year when the grain is moving heavily what different practice do you follow? A.—Suppose we were buying a certain quantity each day in abnormal markets we might hedge it during the day before we got the reports.

THE CHAIRMAN—You say we know we have bought so much and we will hedge a certain quantity and at the end of the day you hedge for the balance? A.—Yes.

MR. PITBLADO—Your object is to hedge as quickly as you can? A.—Yes, to keep even with our purchases.

THE CHAIRMAN—You do not hold your hedging over because you think you may get better terms? A.—We do not usually do that. We try and keep even because we find that the average brings us out much better.

Q.—You think on the whole it is better to do it automatically? A.—Yes.

Q.—And not try and make a little when you get something in? A.—The trouble is you do not know. The average brings you out better if you hedge at a certain time, keeping your hedging up all the time will bring you out much better.

MR. COMMISSIONER BROWN—You will sometimes sell short in an effort to be safe? A.—We might sell short if we thought the market would go down or was declining.

Q.—Is that an invariable practice, to hedge? A.—It is our invariable practice to hedge.

THE CHAIRMAN—But you very rarely hedge without discrimination? A.—Yes.

MR. COMMISSIONER BROWN—Your profit is largely the profit of storing and handling? A.—Yes.

Q.—That is what you are aiming to do? A.—Yes.

MR. PITBLADO—To cover the point that Chief Justice Brown asked you about short selling: Short selling would arise in one of those periods through not being able to correctly estimate during that day what is coming in? A.—It is not short selling in the real sense of the word as understood.

Q.—You used the futures market to hedge in order to protect yourself, as a sort of insurance? A.—Yes.

Q.—Insurance against the risk? A.—We do not want to take the risk of keeping the grain and we hedge to protect ourselves against our holding.

MR. COMMISSIONER BROWN—You safeguard yourself as best you can under the circumstances? A.—That is what we do.

Q.—By this hedging process? A.—Yes.

Q.—And your whole object is not to make money by speculation but in the handling of the grain? A.—Yes.

THE CHAIRMAN—You contract yourself out of all fluctuations in price? A.—We try to.

MR. PITBLADO—That is if you show this wheat on the futures market, if the price goes up on the futures market it also goes up in the cash wheat? A.—Yes.

Q.—So if it goes up equally you are absolutely protected? A.—Yes.

Q.—Isn't it the case that the cash and futures market have a very close relationship to each other, that is the same relation to each other? A.—Generally speaking they move up and down together.

THE CHAIRMAN—What number of times in the year would you have been tempted away from this path of automatic operation in order to take advantage of some special terms? A.—I suppose there are certain times when a man might wish to take a little chance by holding on to the grain, but generally speaking I do not know what time of the year this certain condition might probably arise.

Q.—Would you do it ten times in a year or forty times? A.—We might carry over from one day to the other small amounts, but not a whole lot.

THE CHAIRMAN—Who ultimately takes the risk, if, as you say, you are protected and you know where you are with regard to your trading? A.—Our idea is to keep clear by hedging because we are usually advanced the money from the banks on that understanding and those are the terms we have to borrow the money on.

MR. PITBLADO—You require large amounts of money to handle your business under this system, or are the country elevators always willing to buy any grain that is presented to them and pay cash for it? A.—Yes.

Q.—You are able to do that through your financing arrangements? A.—Yes.

Q.—But the bankers require you to keep your grain hedged? A.—It is the understanding that we do so.

Q.—In order to get your line of credit? A.—Yes.

MR. COMMISSIONER BROWN—Would it be asking a personal question that you do not wish to divulge: How much money is required to handle the operations of the grain by this company of 200 elevators? A.—The price of the grain largely determines that.

MR. COMMISSIONER BROWN—I appreciate that. A.—At the present time it doesn't require so much money as it did a year ago.

MR. PITBLADO—Because the price is not so high? A.—Because the price is not so high. I would say our arrangement at the bank is to give us a moveable line of credit as we have the grain.

MR. COMMISSIONER BROWN—Roughly speaking, in the normal years how many thousand bushels would you handle in a day in the country elevators? A.—Well, I would think—a hundred to a hundred and thirty or forty thousand bushels.

THE CHAIRMAN—Under conditions of reasonable stability what kind of margin would the bank want? A.—Fifteen to twenty per cent.

Q.—So you get eighty or eighty-five? A.—Yes.

MR. PITBLADO—There is at page 31 of the Turgeon Commission's Report a statement by Mr. Jeffrey, whose evidence was that the bank's advance was one hundred and fifty million dollars ($150,000,000.00) and the extent in those years was 90%. I presume each one of these gentlemen might have difficulty in stating that but I think I will get from the bankers the amount of credit, if that is material.

COMMISSIONER BROWN—That $150,000,000.00 is the credit extended to companies or organizations connected with the Grain Exchange who have membership in the Grain Exchange?

MR. PITBLADO—Well, I don't think there is any person in Western Canada dealing with grain who is not connected with the Grain Exchange.

COMMISSIONER BROWN—Yes.

MR. PITBLADO—I am not quite sure whether the Pool organizations are . Now the point that we have about hedging, you have put your first hedge on and there comes a time when you buy back that hedge. You have cash grain on hand and have sold a future and the time comes when you must be a buyer. That is correct? A.—Yes.

Q.—In nearly all cases, by virtue of having been a seller you virtually at some time become a buyer of the hedge? A.—Yes.

THE CHAIRMAN—What proportion of these hedges do you discharge by actual delivery and what proportion by buying? A.—I think by far the larger part is buying back the hedge and selling back the cash grain; practically all but five or ten per cent.

MR. PITBLADO—So that, let me use this illustration so that the Board may get it: as months go on you have accumulated some cash wheat. You have sold a hedge against it. That is, as other people are hedging by selling you may at some time become a buyer because of the fact you are taking up this selling hedge you have originally put on? A.—Yes.

Q.—Perhaps I can state it in this way: that even although they are selling grain and taking off the hedge with the country business going on they don't bucket, if I may use the term. Each one of these things is a separate transaction and as you are still buying you are still selling and as you are selling you are buying in the futures market.

THE CHAIRMAN—Generally speaking, in the long run you buy as many as you sell? A.—Generally speaking, yes.

Q.—So, in the futures market you are as much a buyer as you are a seller? A.—Yes.

MR. PITBLADO—Now, supposing you sell 100,000 bushels of cash wheat you have got to sell that? You sell that to Mr. Hoskin here and you have out a hedge against that, I understand that you require Mr. Hoskin to buy that from you? A.—That is frequently done.

Q.—And if that is done and he is a member of the Clearing House, it is cleared through the Clearing House—well, let me ask you, you are a member of the Clearing House? A.—Yes.

Q.—Put through the Clearing House, and you would be short that much in the Clearing House? A.—Yes.

Q.—You are credited with that and Mr. Hoskin is short that amount? A.—It is usually done simultaneously.

MR. PITBLADO—I propose to call a cash broker to show what is done. It would become in the books of the Clearing House a contract with Mr. Hoskin. It goes into what would be the volume of the Clearing House? A.—Yes.

Q.—They fill up their slips to the Clearing House and forms part of the volume that goes through the Clearing House? A.—Yes, that is one of the factors that forms part.

THE CHAIRMAN—It may be three or four times what the transaction involves? A.—Yes. And many more times than that.

MR. PITBLADO—When you hedge you endeavour to hedge in different futures markets? A.—Yes.

Q.—What futures markets have you in dealing with futures? A.—October, November, December, May and July.

Q.—June? July, is it? A.—Yes.

Q.—So that you have five futures markets here in Winnipeg and you can trade in October, November, December or May or July, if those markets are open? A.—Yes.

Q.—What futures markets are open today on the Winnipeg market? A.—May, July and October.

Q.—So you could buy or sell wheat or grain for the May, July or October markets in that way? A.—Yes.

Q.—Now, when you hedge your grain in that way how do you know what month you are going to take, going to trade in? A.—Well, at the present time we would consider whether we wanted it for May, when we could get it down.

Q.—Get it down for May? A.—Get the grain forward to Fort William.

THE CHAIRMAN—Get rid of it for cash?

MR. PITBLADO—When you say "get it down," that is, to a suitable point? A.—Yes.

Q.—The price, the Winnipeg price is based at Fort William, so if anyone sells grain or wheat it has to be for grain in storage at Fort William? A.—Yes.

Q.—But the month you buy your future is the month you think will match your transaction? A.—If we think it is better to ship it for May, but if we thought we would like to ship it for July we would sell it for July. There may be a little storage on it but we do that and give our country elevators a little revenue in that way. If October, it would be quite a bit.

THE CHAIRMAN—That where you have a good idea of the month in which you are going to be clear on that cash transaction you match that with a future? A.—Yes.

Q.—But you occasionally do speculate in the difference of months? A.—Yes.

MR. PITBLADO—You watch the spread for the month. A.—Yes.

Q.—You would hedge in this month? A.—Yes.

Q.—Now when you have hedged in one month tell the Commission about the switching of hedges. Is that a frequent thing? A.—Yes, we would be selling wheat for May and then find we couldn't ship the grain down in time and then it would be to our advantage to hold and at the same time sell a July future.

Q.—So in effect you have closed out the first hedging transaction by buying in the first grain you sold which you have hedged and then start in a new one and in the illustration you used you have that hedged open?

Q.—Take the illustration of 100,000 bushels: The grain which you had bought might represent a number of sales and purchases in the futures market? A.—Yes.

Q.—Even before you were selling it to the person who was buying it you would switch it from month to month? A.—Yes.

Q.—Is that a very frequent thing? A.—Yes, that is a frequent thing.

CHAIRMAN—It is almost like an arbitrage movement between months? A.—It is that.

MR. PITBLADO—And that would have something to do with the volume as shown in the Clearing House as compared with Cash Grain Sales? A.—Yes, that is another reason.

Q.—That is another reason for the switching of the grain coming into the Months' Account. I don't think I need to trouble you about your commission end. I would like to go back to the operation of your Commission Department but I am going now to deal with your Terminal Elevators. The grain goes forward from your country elevators to your own terminal. A.—As much as possible.

Q.—As much as possible? You have a line of elevators feeding the terminal? A.—Yes, and then we have other people shipping to the terminals as well.

Q.—Does the futures market in hedging play a part in the operation of terminal elevators? A.—Yes, it plays a much more important part.

Q.—That is your organization operating a terminal elevator buys grain you never bought in the country? A.—Yes.

Q.—You do the same with them as you did with the country elevator? A.—Yes.

Q.—And if the farmer had given you grain in store and have forwarded it down in storage and wanted to sell it and sold it to you do you hedge that? A.—Yes, we hedge that the same way.

Q.—So what you put into the terminal you hedge just in the same way as you have that in the country elevator? A.—Yes.

Q.—So it is a continuous market every day? A.—Yes, a continuous market every day.

THE CHAIRMAN—Couldn't you have a continuous market without futures? A.—No.

MR. PITBLADO—It would be a very discontinuous market? A.—Yes.

THE CHAIRMAN—You and others are in the market for buying grain much more at one time than another? A.—Yes.

Q.—Who are the buyers at these times? They must be other classes of people. A.—Well, there are grain merchants who are trading in the grain, speculators trading in the market through the Grain Exchange, millers and exporters. I suppose that would give you——.

Q.—That is, the other side of the shield must be speculators? A.—Yes, they must be speculators.

Q.—They are buying the future which you are selling and they are following the reverse process at other times of the year? A.—Yes, if I can explain it, when the crop is moving heavily. It is all harvested and marketed in a month. It is more than could be sold to the millers and then the forwarding of it plays a very important part.

Q.—Well, there are not enough cash dealers in grain to cover you. There must be somebody else coming in.

MR. PITBLADO—I wonder if we could get statistics on that showing the amount that is pure speculation? A.—That is impossible, I think.

THE CHAIRMAN—Well, that is what we want to know, how much speculation is necessary to hedge. A.—I don't think it is possible to answer that question because we cannot tell as members of the Exchange whether a man is buying for speculation. There are some we know who are buying for speculation but the majority of orders we get, we get through the channels of the grain trade and we don't know whether the man is buying and selling in Chicago or Liverpool or buying it outright. I don't see how anybody could compile statistics showing who are the speculators and who are handling the grain as speculators or the other way.

THE CHAIRMAN—Surely, Mr. Smith, if it is three times as great at one time as at another somebody must be providing the hedges that is not in the trade. A.—Just as I said a minute ago, the wheat is traded five or ten times during the changing from hedges and that helps to make that big volume up.

THE CHAIRMAN—Yes, we have that, the bigger volume of futures the greater will be the spreads between the months. I wanted to know this, supposing there were no speculators except the private hedges how much the proportion would be between them. A.—Well, I can't answer that question. If there were no speculators I don't think there could be a futures market.

Q.—What is the volume or the nature or the order of magnitude of the volume of futures required to provide that continuous futures market? What we have to look at is what is the superstructure beyond that of one speculator going against another speculator? A.—I couldn't answer this in detail.

Q.—Well, you would not carry that to a very high point. There must be a further point and then you cannot cover that in pure speculation of "bulls" against "bears". You couldn't say that that extra load you put on was really necessary to the futures market. A.—Well, as the hedge disappears the speculation goes down and there is the ebb and flow in the amount of speculation. A.—Well, I will just give you my personal view. I think the greater number of buyers, whether they are speculators or whatever they are, that are in the market, traders, the better it is for the producer and all parties concerned. It has a tendency to keep the market in quite a volume, and keep it steadily in line with markets in other parts of the world through the arbitrage of buying ours and selling theirs, or selling theirs and buying ours.

By the Chairman:

Q.—I appreciate that. Supposing you have got that ideal situation now, with 1/10 of the population joining in as bulls and bears, and supposing the whole of the population decided to join into this, is that going to improve your market? Having once got your ideal position do you gain anything by a large superstructure of additional people going into the market? A.—I cannot help but feeling the more people that join into it the better.

Q.—Your idea would be that the whole population should be either bulls or bears? A.—I wouldn't say it would be an ideal situation for that, but a grand thing for the producer.

By Mr. Commissioner Brown:

Q.—Would it be a gain to the producer? Supposing the whole population assumed the position of bears, and sold short by way of speculation, what advantage would that be to the producer in a period of the year when he is delivering his grain in the fall? What effect would it have naturally? A.—Statistics show from 90 to 95% of dealers on the market are bulls. The tendency is always that way.

By the Chairman:

Q.—Your objection against my particular argument as to everybody joining in, is that people are constitutionally bulls, and that that would be good for the producer, but wherever there is a sale there must be a purchase, and somebody would be carrying that load? A.—Yes.

Q.—Supposing the bulls took fright? A.—If they all took fright at once—

By Mr. Commissioner Brown:

Q.—Then your market drops.

By the Chairman:

Q.—Isn't that the nature of a very large impressionable market, that it may be a danger to you? A.—We have noticed when the volume of trading is large the fluctuations are not as heavy and as radical as when there is a very narrow market. The larger volume of trading on the market it seems to always work out that way, the larger volume of trading, the less violent fluctuations. There is one bull wants to sell, and he turns into a bear for the time being, and some other fellow takes his place. In a narrow market where there are not many traders the fluctuation is much more violent, and subject to movements by their buying or selling.

By Mr. Pitblado:

Q.—I was taking Mr. Smith to the next step, when we were discussing that, that is to the exporting side, Mr. Chairman. We have had the country elevators, and the terminals. You are also, Mr. Smith, an exporter? A.—Yes.

Q.—And the exporter is, I believe, the man who buys and forwards to the Atlantic seaboard, and also to the Pacific seaboard, grain which he expects to sell for export. That is what an exporter does? A.—Yes.

Q.—That is your elevators function to Fort William? A.—Yes.

Q.—And then from Fort William on, that is speaking of the east side there, or if it goes to the Pacific, the exporter takes this grain and looks after it, and has charge of it. He handles it with the idea of exporting? A.—Yes.

Q.—And you are an exporter? A.—Yes.

Q.—You buy grain as it is offered until you accumulate different shipping quantities? A.—Yes.

Q.—I believe I am leading in this also, Mr. Chairman, because it is so well known, the exporter has to arrange in advance for shipping facilities, is that not correct? A.—Yes, that is correct.

Q.—Shipping facilities on the Great Lakes for grain going east from Fort William? A.—Yes, and on the ocean.

Q.—And on the ocean. Do you have to do that in advance? No, not always in advance.

Q.—On the Lakes you do? A.—We have to do it in advance of the time you make the shipment.

Q.—And on the ocean you are watching for your ocean tonnage? A.—Yes.

Q.—Do you have to watch in that connection the rates from different points, that is the freight rates, ocean rates? A.—That is one of the main things you have to watch.

Q.—And you also have to watch in that connection exchange rates? A.—Yes.

Q.—Do you quite often buy and sell exchange in advance of your actual use of it? A.—We try to keep even. We eliminate what risks we can.

Q.—So you are an exporter. Let us take an exporter. What use does the exporter make of this futures market? A.—Well, sometimes he makes several uses, sometimes he buys a quantity of grain and ships it forward to either seaboard, the Atlantic or Pacific, to have it ready to sell when the man comes in for that particular grade.

Q.—That is buying cash grain? A.—Buying cash grain. In the meantime he keeps it hedged in the Winnipeg market, or Liverpool, or some place, until he is able to make a sale of the cash wheat that he has forwarded.

Q.—You as an exporter use the Winnipeg market for that? A.—Yes, principally.

By Mr. Commissioner Brown:

Q.—That is, you make delivery at Montreal seaboard or perhaps on the continent? A.—Yes.

MR. PITBLADO: And if he has bought the cash grain to do that, he uses the futures market to hedge that.

MR. COMMISSIONER BROWN: Yes, exactly.

By Mr. Pitblado:

Q.—That is one illustration, Mr. Smith? A.—Yes.

Q.—Give me another illustration of an exporter who uses the hedging market in just a little different way? A.—Well, the exporter, to give a typical case—

Q.—Yes, take a typical case. A.—We offer out every night, by cable to our agents in Great Britain, Europe or on the continent, a certain quantity of grain to each place. In the morning we receive the cables back whether or not they have accepted. If they accept, whatever the total number of bushels is we step into the futures market, into the open market, and buy enough to cover that sale, unless we have anticipated the sale by buying the day before, thinking we probably could sell it we buy it before we offer it. It is bought before you offer it, or bought after the sale is made.

Q.—Let me come back on that and see that the members get it, and that is all I want to get. That is, the exporter will very often quote a price to the importer in the Old Country before he has the actual cash grain? A.—Yes.

Q.—If the price is taken he protects himself against that by buying the grain in the futures market? A.—Yes.

Q.—So he starts off with a purchase as a hedge in the futures market? A.—Yes.

Q.—That is, he uses that as a hedge to protect himself on grain he has the contract C.I.F. Liverpool at some future date? A.—Yes.

Q.—Then when the delivery date comes in the Old Country, or in Montreal, then he buys the cash grain for that? A.—Yes.

Q.—And he in turn, as you did with yours, he has to then sell his hedge.

MR. COMMISSIONER BROWN—In other words, he sells to the importer before he has bought in the country?

MR. PITBLADO—Yes, but he knows all around the building what he can buy at. He quotes a price in the Old Country, and it is accepted, and then he buys on the futures market, because he may not want the cash grain for some time to come.

MR. COMMISSIONER BROWN—That is the way he protects himself, but eventually he expects to get his grain from the elevator. A.—Yes.

By the Chairman:

Q.—Do you ever in fact at the time you buy grain, in respect of some grain having sold it for delivery, also buy a hedge? A.—Yes, we have different departments. Every department runs its own business.

MR. PITBLADO—They do not, as I said once before, bucket; every department is run separately.

Q.—But it may be your own hedge that you buy? A.—You don't usually buy from your own traders.

Q.—But it is all mixed up here in the pot you buy from? A.—Yes.

Q.—It might conceivably be your own that you took? A.—Yes.

MR. PITBLADO—Those go through the Clearing House in the same way, and the same thing happens with you as an exporter, when you buy the cash grain, with your buying of that cash grain comes back to you again the hedge that was on that grain? A.—Yes, that is right.

Q.—And that must again be closed out? A.—Yes.

Q.—Do you consider that is of important value to the exporter? A.—Of course, it is very important, also to the importer, because it gives him an opportunity to eliminate the risk of the market fluctuations, and he can go ahead and do a large volume of business.

Q.—You exporters have to work on a very close margin? A.—It is a fraction of a cent, Mr. Pitblado.

Q.—A fraction of a cent per bushel? A.—Yes, of a net profit, I am speaking of.

Q.—Mr. Smith, there was some other point that came up in the discussion I want to take up with you. You run a commission department where customers come and can buy and sell in the futures market on commission. I am correct in that? A.—Yes.

Q.—I am going to ask you a question in this way, you have run that department for a long time, have you not? A.—Yes.

Q.—It is a separate department, just the same as if it were a separate business? A.—Yes.

Q.—I am going to ask you what percentage of those who I might say speculate in your commission department there, what percentage of them are bulls as against bears on that? A.—I already said that our records, and our experience shows about 90 to 95% of everybody on our books is a bull.

By the Chairman:

Q.—In your commission business? A.—Yes.

Q.—Who are your customers? A.—Some customers are farmers in the country who wish to speculate, or dealers outside, and men who like to sell their cash wheat and buy something because they think the market is going up. And then there are a great many orders that come through Chicago, New York, and from the Old Country.

Q.—From whom? A.—We get them through the channels of the grain trade, or agents.

Q.—Do you know who ultimately is taking the risk? Private individuals just speculating? A.—We can't tell that, but there are frequently spreads between Chicago and Winnipeg, arbitrage—we call them spreads—between Liverpool and Winnipeg, and between other markets, and sometimes they are outright speculation.

Q.—You don't discriminate? A.—No, we take any trades that come from responsible parties.

Q.—Supposing I came in to you as an absolute stranger, and I fancy my knowledge of the subject, and came in and asked you to speculate for me. You wouldn't make any inquiries about me? A.—Yes, we would start right in to make inquiries.

By Mr. Pitblado:

Q.—As to his financial position? A.—Yes.

By the Chairman:

Q.—Wouldn't you require me to put up any margin? Yes, we would find out who you were, and we would want to be sure you could put up the margin, and ask you to put up the margin before you began to trade.

Q.—Supposing all you learned about me was quite respectable and I was quite prepared to put up the margin, you would take any business I would like to offer? A.—We would take any business you would like to offer, unless a man were trading in a larger volume than we thought was wise to handle.

Q.—And then there is nothing to stop him going somewhere else and making it up there? A.—No, nothing to stop him.

Q.—He can be a speculator in the market through different commission houses to almost an unlimited extent? A.—Yes.

Q.—Do the people who do that kind of thing come in in much greater numbers when the market is looking heavily bullish? A.—Yes.

Q.—They are nearly always bulls? A.—Our experience is 90 to 95% are long trades bulls.

By Mr. Pitblado:

Q.—That is what I was bringing out, and I was going to ask Mr. Smith this, because I may say that the experience of our other Commission is the same, I am going to ask Mr. Smith if there was any evidence that he saw at all in this Winnipeg futures market during the decline of prices that happened this last year, or over a year and a half, of market manipulation by short selling on our futures market here? A.—As far as I am

personally concerned I have never seen any evidence of market manipulation by short selling, or by long buying. I don't remember since I have been in business any such manipulation on the Winnipeg Grain Exchange.

By Mr. Commissioner Brown:

Q.—That is, you have seen no evidence at any time of an attempt to manipulate the market through the Grain Exchange? A.—No, I have not.

By the Chairman:

Q.—If it is a psychological constitutional characteristic of the public to come in at times when things look bullish, but to stand off when things are poor, what would your inference be from that, as to the influence of this, so to speak, rather inconsequential fortuitous element? Isn't that to rather increase the fluctuation in price than if they stood off? A.—I would say if they stood off in bunches and came in in bunches that way, there are certain times when speculation gets more general. It seems there are always people who are ready to come in and buy at some price, and when there is a big movement on there would be more people taking a hand in it, seeing the market going up day after day they would go in to get a little money, and they step in when there is a volume of trading going on, at the same time by speculators or traders.

Q.– There is a much greater amount of outside speculation in times when the public are bulls? A.—Yes.

Q.—Doesn't that mean that this natural fluctuation, that is the natural fluctuations that would arise from changes in supply, supply and demand, are rather accentuated by this characteristic of the public? A.—Yes, I think when the public come in and buy and feel that the market is going up, if they happen to be right for the time being they influence the market for the time being, and it makes a little difference, but I think the law of supply and demand eventually finishes the thing up.

Q.—I only want to see the difference between the kind of a curve of say supply and demand with your apparatus, and the actual curve one gets when people come in heavily at one time. Doesn't it mean in times of short crop this class of speculation rather tends to increase the price that the farmer would get? A.—Yes, I would think that. In times of heavy crop they may not come in in the same way if the price went down.

Q.—On the other hand when the supply is abundant and the market is non-abundant the public stand off, and therefore they do not depress the price to the same extent that they may increase it in other times? A.—That is what I believe.

Q.—Therefore the shape of the new curve, by reference to this new factor tends to be higher in the high place and no lower in the low places? A.—That is what I think.

Q.—Wouldn't that therefore increase the general average? A.—I think speculation does increase the general average.

Q.—That is your opinion? A.—That is my opinion.

Q.—That arises because of this public factor, of the public coming in and exercising their influence; you will find a bull market? A.—Yes.

Q.—And your answer on our main question is that the futures market would tend to lessen the fluctuation in price; when you had the public speculation that tends to increase the ups and not lessen the downs? A.—The public is 95 per cent. bullish in our experience; I would say that.

Q.—If you had no public speculation at all the general effect of the futures market is to flatten out fluctuations? A.—Yes.

Q.—That having been said, you superimpose upon that this particular class, which has the effect of rather increasing the ups of the new curve and not decreasing the downs? A.—Yes, I would think so.

By Mr. Pitblado:

Q.—The larger the market is the more extensive—you have members in the Old Country and in Chicago and New York and all over—the larger the market is what effect has that on the futures markets? A.—As I said before the larger the market is the less the fluctuation. I would say it is a question of degree. It fluctuates up to a certain point.

Q.—Are there traders in New York for instance that are watching Winnipeg prices here as they shift or move, Mr. Smith? A.—Yes.

Q.—And your Old Country traders are doing the same? A.—Yes.

Q.—And Chicago traders? A.—Yes.

Q.—And so you know as a matter of fact that our Winnipeg price is being watched by people who are trading on other markets? A.—Yes, they watch it in relation to the others.

By Mr. Commissioner Brown:

Q.—You mean our prices influence the markets of the world?

MR. PITBLADO—I would put it the other way; they are co-related; they are watching our markets and we are watching theirs.

By Mr. Pitblado:

Q.—And there is a co-relation is there not, Mr. Smith, between all those large markets throughout the world.

THE CHAIRMAN—If you had a perfect state of affairs in your own supply and demand and would look for a steady price you can be made to wobble up and down because of very considerable events happening in other parts of the world. A.—Yes, we have to move in relation to the world.

Q.—Sometimes you get more fluctuation, more than you would have on your own, sometimes less, because the rest of the world is steadier than yours. A.—We have to come in line with the world.

Q.—A large part of our crop is exported today? A.—Yes.

Q.—Do you find in your experience that the ups and downs in your market, taking the average price per year, fairly well compares with the world prices as indicated in Chicago and Liverpool? A.—Sometimes we run away out of line. In the fall of 1929 we ran about 25 cents a bushel higher than the world values in Liverpool. We couldn't sell anything further; for a while we ran beyond the world value, but then we came into line again, and we got in line with the world values; we are almost in line now.

Q.—And other times you are away down below I presume. A.—We have never been below; whenever we are below Liverpool then they would be taking the grain faster than the rest of the world can buy. We are always within a very little bit, as we are trying to sell them as much as we can, and they are trying to buy as cheap as they can; but the Liverpool market never gets very far. In my experience during many years it never gets so that there is a profit of more than half a cent on buying and shipping the grain and delivering it in Liverpool, half or three-quarters of a cent; it is that close always. Liverpool is the market that we have to look to as governing our export.

By Mr. Commissioner Brown:

Q.—What is your explanation for the price here, 29 cents I think you indicated, above the world price in the fall of 1929. A.—Twenty-five cents was the most.

Q.—Is explained how? A.—We were all very bullish in those days, and we wouldn't sell; we were all buying instead of selling; that is the whole country was bullish. Everybody, as far as I know, pretty near thought we were going to get it up to $2.00, and we held on and it didn't go. The rest of the world undersold us.

Q.—But my question relative to fluctations in supply and demand; it is agreed, and I think you have agreed that it does make a link up throughout the market supplies of the world; that fluctuations in your market become less because they are steadied by the steady condition of the rest of the world? A.—Yes.

Q.—On the other hand, if you are steady and the rest of the world is wobbly you would be influenced in a way you would not otherwise be? A.—Yes.

Q.—My next question follows from that, a very important one. Do you think that the supply of wheat in your market is subject to a greater fluctuation than the ex-Canadian market? Do you think that the fluctuation of supply of your harvests in Canada are greater or less than the world's fluctuations outside of Canada? A.—In the heavy crop I would think that the fluctuations of our supply would be as great as any part of the world, because we need to market all in just about one month, but on a lighter crop it would be different.

Q.—I am speaking of the total year's crop, the percentage of fluctuation in the Canadian supply is it greater or less than the ex-Canadian outside supply? A.—I may be a little dense, but I don't just get what you mean.

By Mr. Commissioner Evans:

Q.—One Canadian crop as compared with another, does that vary more than one world's crop? A.—Of course I don't know how to answer, except that we are subject to wide variation of quantities in this country; that is, we have had one year 550 million bushels and the next year about 275.

Q.—I take it my question is really susceptible to answer from the published data? A.—Yes.

Q.—The assumption, I take it, would be that the probability is that the fluctuations on any individual market are greater in themselves than the fluctuation of the whole of the rest of the world? A.—Yes, I would think that, because they have their local situation.

Q.—Following from my first two questions, if that is so, if the most wobbly thing is linked up by a process of futures market and arbitrage that the less wobbly thing that link must steady, but it would be otherwise steadied in its prices? A.—Yes, I would think so.

Q.—If that is so what influence has that got upon the average price received by the farmer in Canada? Is it good for him to have a highly fluctuating price or is it better for him to have a steady price? A.—Well, I would think of course it is good for him to get all he can get for his wheat at any time. On a smaller crop he wants a higher price, because he has got less to sell; but I would think it would be good for him to have a steady market.

Q.—That is an advantage? A.—Yes.

Q.—We might find that under one system the price was X and under the other system X, but the way in which X is made up may be totally different. They might each be a dollar to $1.50, and yet one might be made up of years of tremendous fluctuation and the other made up of years of very small fluctuation? A.—Yes.

Q.—Or conversely it might be the same average was made by a long period of fluctuation and the other a short period. Is it your view that if the average price is the same

the farmer is better off if he has his average without undue fluctuation? A.—Well, I would think it depends what the average price is; if the average prices were reasonably good, and he knew every year he was going to get a reasonably good price it would be better for him to get that. It would depend on what the price would be, I think.

Q.—Suppose that the price were $1.50, the average over a period of years, now the farmer in one country gets $1.20 and the other gets $1.20, but in the one country he has it as an average of $1.70 and 70 cents, continually fluctuating; on the other he has an average of $1.30 and $1.10, which farmer is able to conduct his business best. A.—I think the man that had it from $1.30 to $1.10 would be in a more safe position.

Q.—So if any futures market keeps the fluctuation within the average, keeps the fluctuation within narrow limits, that is a good thing for the farmer? A.—I think so.

By Mr. Pitblado:

Q.—I don't want to trespass on it, but there was largely in the market of 1929 another element and that was the pool; that was holding large quantities of grain. I don't want to go into that because we are not discussing the two points; but as you asked about the price in 1929, I was going to ask Mr. Smith if he had holdings, and what they were.

MR. COMMISSIONER BROWN—I don't think you need enter into that.

MR. PITBLADO—I would think not only the Pool but probably everybody all over the country.

THE CHAIRMAN—We could only consider the Pool in so far as they represented producers.

MR. PITBLADO—Holding their wheat.

WITNESS—We were all in the same boat.

THE CHAIRMAN—They were bulls in cash wheat.

Q.—So far as you are concerned, you did hedge? A.—I am sorry we did not have it all hedged.

Q.—How did it manage to escape your automatic machine? A.—I may have personally been carried away for a few moments.

MR. COMMISSIONER BROWN—That is one of the rare occasions?

THE CHAIRMAN—That was a case where the automatic machine began to think for itself.

By Mr. Pitblado:

Q.—You have been mentioning spreading and arbitrage. What do you mean by this spread—one market to another? A.—Well, it is pretty well understood in the trade.

Q.—I don't want to go into it if the Commission know.

THE CHAIRMAN—I understand it to be nothing more or less than spreaders between different markets. It is an inter-linking of the system. If you alter the level in one—

Q.—Have you those spreaders in our Winnipeg futures market? A.—Yes.

Q.—You have what I might call professional spreaders? A.—We have men to watch it more carefully than others. I think the general grain trade watch spreads. They may want to put it in Liverpool, Chicago or Minneapolis.

Q.—You have got specialists in this arbitrage business, but the average person also sees the advantage of it? A.—Yes.

Q.—That helps to run up the volume of your trades as they would appear in the clearing house? A.—Yes.

Q.—That trading adds to it? A.—Yes.

Q.—Supposing the buyer of grain from the producer did not have this futures market how would it affect you, first as to your buying in the country, as to your money for buying? A.—Well, I would think that if we did not have the futures market or hedging, we would not be able to get as great a percentage of a loan from the bank on the grain that we were pledging to them. They would want a wider margin between their loan and the value of the grain.

By the Chairman:

Q.—They are not prepared to enter into the business of speculating in the difference in price? A.—No.

By Mr. Pitblado:

Q.—There may be times you would not be able to buy? A.—I am quite certain we would come to the end of our financial capital.

Q.—What about the price, in your opinion, giving it over your experience that you have had in handling grain, what in your opinion would be the effect if you hadn't this futures market that you are speaking of on the price that you would be able to pay to the producer in the country for his grain? A.—There would be a greater risk in buying the grain, and consequently you would have to have a greater margin of profit if we had to carry this grain until we could find an export market; we would have to have a margin of profit that would protect us for that time. I think that is clearly understood. There would be certain times we couldn't buy at all, I would say.

Q.—And in the second place when you say you would have to have a larger margin of profit what you mean is you would have to pay less to the producer? A.—Yes.

Q.—I am going to ask you this question, Mr. Smith; having in mind your experience—and I am speaking now from your experience in the trade, your opinion in that, what effect, if any, has the dealing in futures upon the price received by the producer? A.—What effect?

Q.—What effect, if any, has the dealing in futures on the price received by the producer? A.—Because we eliminate part of the risk and reduce it to a minimum, being able to sell almost as soon as we buy, and because we are linked up with all the markets of the world, I think it gives him a better price relative to the world values than he could possibly get if there was no futures market.

By the Chairman:

Q.—Taking your final answer, which is the direct conclusion of all you have been saying, if you had no futures the business of bearing the fluctuations in values, and unseen fluctuations, would be spread would it not? The farmer would bear part of it, and you would bear part of it and the bank would bear a part of it depending on the strength and stress of the market? A.—Each one would have to have a larger margin of profits to bear a part of the risk.

Q.—That might merely mean that the ultimate consumer would pay a higher price—that was not my point. The question was whether the farmer bearing a part of the risk of the change in price, you bearing a part and the bank bearing a part, according to the stress of the market, that the farmer would be engaged in a business for which he is not very well equipped, not knowing the speculative side of changes in price. Is that right? A.—He would be carrying that part of the risk himself.

Q.—Now it is focused on the system where they are able to make a special study of it? A.—Yes.

Q.—With all the equipment, and best knowledge, and the mental equipment for the task? A.—Yes.

Q.—Would you say that the average farmer is not well equipped to consider the influence of the total world's supply and price and so on? A.—No, I wouldn't say that he was not; I think the average farmer, as I have dealt with them, are most of them pretty shrewd fellows, and have access to all the information that goes out over the radios and in every other way in these days. I think they know pretty well how things are going. At least there is always men in every class that do not know much of what is going on; but I would say that the farmers as a class are a very well posted class of men, and are kept up as to what is going on in the markets of the world, and what crops are being raised in various parts of the world.

Q.—If that is so, wouldn't the farmer have to be the sole judge of when to be bull and bear and so on? A.—That he should be the sole judge of when to be bull and bear?

Q.—I think he would have to be, I take it, if there was no futures market? A.—Even on the futures market he has got to be the sole judge of when to sell and buy.

Q.—Does he do any hedging? A.—I would say that the farmer does not do much hedging, because selling of grain before he gets his harvest done is not very much done by farmers, but I think the farmers make at a certain time of the year use of the futures market in buying.

Q.—But it is not the general practice for the farmer to buy futures? A.—Sometimes he does if he thinks the market is going up.

Q.—But he does not automatically? A.—No, I think most of them leave the speculation to——

Q.—That is done by the speculators but not many farmers? A.—No.

MR. COMMISSIONER EVANS—Are there not some farmers who thresh at the earliest moment and if in their opinion the price is not satisfactory they acquire futures?

THE CHAIRMAN—There are cases where the farmers hold on? A.—Yes, some of them hold on for months and some for years.

Q.—So the farmer is not always tempted to keep clear of speculation? A.—No.

MR. COMMISSIONER BROWN—I think as a rule the farmers in this country sell their wheat early. That is, they are compelled to. They have to meet their liabilities. They are dependent on the proceeds of their grain to pay the liabilities they incurred during the year. They are forced to sell. That is the rule, is it not? A.—Yes, that is the rule. And if they think the market is going up they may take an advance against storage tickets.

Q.—Those who are taking the risk under these insurance policies of your own are the general public? It is not limited to the farmers? A.—No.

THE CHAIRMAN—The farmer may join in but it is not a fixed part of his farming operations? A.—Yes.

Q.—The logical implication of your evidence is if there was no futures market, you would bear the risk and the banks would bear the risk and the farmers would bear part of it? A.—Yes, I think that.

Q.—The general effect of that is that the average farmer is having the risk taken off him by you and the banks? A.—Yes, he would have to speculate with his grain, either sell it—if the market went up he might be better off, but year in and year out he would be better to dispose of his risk.

Q.—His business is farming and not carrying a price risk? A.—Yes.

MR. PITBLADO—Do you think the banks would take any of this risk—wouldn't they check your line of credit much closer? A.—There are times when the banks have to take the risk, sometimes.

Q.—This line of credit—your percentage is about eighty per cent? A.—Supposing they had advanced sixty per cent, then if the grain dropped and having it hedged for an advance and it had gone up they would have the risk.

MR. COMMISSIONER BROWN—What Mr. Pitblado has asked you, they would not loan you the same margin? A.—They would not loan the same margin.

MR. PITBLADO—When the banks give you a line of credit, they investigate your assets independent of this grain you are going to hold? A.—Yes.

Q.—They get a statement from you and consider your worth and value? A.—Yes.

Q.—And you have to get certain credits for that? A.—Yes.

THE CHAIRMAN—To make it perfectly clear your suggestion is that the fact that there is a futures market enables people with smaller capital to engage in the industry and makes more competition in it? A.—Yes.

Q.—If there was no futures market, the suggestion is that the banks would have to be selective and assume the standing risk of that themselves? Without capital advance the risk would be greater? A.—Yes.

Q.—That is if you have no futures market the banks would no longer by competition insist on eighty-five or ninety per cent, but it does not follow that they would give nothing? They would then give, say fifty or sixty per cent of the advance and in that sense they would come into loss? A.—They might.

Q.—The burden of your evidence is that the futures market enables the banks to pay money in the way of clearing themselves of this risk which otherwise they would have to bear? A.—Yes.

Q.—But it is rather absurd to assume that the banks would have no hand in wheat marketing at all? A.—They would take a greater risk than if they handled the grain that is hedged.

Q.—The suggestion was that there being no futures market they would not pay anything at all? I think that is wrong? A.—I think so, yes.

Q.—I want to go further than the Commission of 1925: Without the futures the banks would be carrying some portion of this unhedged risk? A.—They would be.

Q.—But it is inconceivable that the banks would be out of it altogether? A.—I think that is right.

MR. SWEATMAN—In regard to delivery, had you in mind the question of hedging in a heavy or light crop year? A.—Yes, in a heavy crop year and the buying of supplies that come in the market.

Q.—What is the usual market delivery, or what is the heaviest month? A.—October, November and December, but November, I think, is the heaviest month.

Q.—What would be the effect of all these country elevators hedging at the same time, in a heavy crop year, as to the price? A.—Unless there is a demand for it it would have a tendency to have a depressing effect.

Q.—And therefore you would need more speculation to take up your hedging? A.—The same volume of buying to take up our hedges.

Q.—In a heavy crop year? A.—Yes.

Q.—In some years the grade of the crop is not very uniform, there are a lot of off grades? A.—Yes.

Q.—What are the contract grades? A.—No. 1 hard and No. 1, 2, 3 and No. 4 Northern.

Q.—As to the price paid to the farmer where there are off grades and not being able to speculate on the off grades, doesn't it affect the price? Can you enlarge on that point? A.—The spreads of off grades depends on the general level of the market. On a high market such as last year the off grades were widely spread out from the contract grades because the hedge was really not a complete hedge against these low grades. If we had an option that hedged No. 5 with No. 6 we would have hedged in those positions, but I do not know; there are too many grades of wheat, more than one hundred, I think——

MR. COMMISSIONER EVANS—More than a thousand.

A.—So you cannot hedge everything exactly. Delivery on the contract and the wide spreads occur usually when the market is at a high level. On the present level of course the spreads are narrow.

MR. SWEATMAN—It was suggested that you cannot use the futures market when you have a lot of off grade wheat. Does that affect price? A.—The farmer does not get as high a price as if he could hedge some of those.

THE CHAIRMAN—Does that mean that a more complete hedging system would be better for the farmer? A.—Yes, I think so.

MR. PITBLADO—When you do buy off grades, do you not hedge them in the contract grades? A.—We do.

Q.—That is, while they are not delivery grades under the contract—the grades that are delivery grades on the futures markets are No. 1 hard and No. 1, 2, 3 and 4 Northern? A.—Yes.

MR. COMMISSIONER EVANS—No. 4 has a penalty.

MR. PITBLADO—Some time ago the rule was No. 1 hard and Nos. 1, 2 and 3 Northern, and it happened that one year there was so much of No. 4 wheat that trouble arose when time for delivery came around and the Grain Exchange then amended the rule to provide for No. 4 at a fixed difference? A.—Yes, they fix those delivery grades every year.

Q.—So today it is No. 1 hard and Nos. 1, 2, 3 and 4 Northern? A.—Yes.

THE CHAIRMAN—It makes it less of a lottery for the farmer which grade he happens to be in? A.—Yes.

MR. PITBLADO—So on your off grades today you hedged just the same in the grades which you can hedge in? A.—Yes.

Q.—But there is a little risk assumed when you hedge off contract grade grain? A.—Yes.

Q.—The spread may vary more? A.—The spreads may fluctuate a little more.

MR. SWEATMAN—Hedging in a heavy crop year, does that affect the cash price? A.—If the grain goes down it affects the price of No. 1 Northern and they work together. We need a very large volume of trade to take care of it.

THE CHAIRMAN—Has the evidence you have been giving reference to dealings in straightforward futures, or have you covered calls and options? A.—I haven't spoken of puts and calls.

MR. PITBLADO—They are only an element in futures trading? A.—Yes.

Q.—That is your answer—they are a small feature? A.—They are a small feature.

Q.—They do not sway the matter very much? A.—They are a sort of insurance.

Q.—Would the Commission like him to explain? They are really an option on a future contract.

THE CHAIRMAN—I know what they are. I want the witness's view as to their influence. A.—I think they have very little influence in the general movement of the market. They have a little influence, of course, because if a lot of puts were bid there are less of puts sold at the same time, the one man has got the grain and the other wants to get rid of it so the price would not be affected so much by that market. It would be a case of the individual who bought the puts or calls taking the place of the other man.

Q.—They offset each other? A.—Yes.

Q.—They stand clear of the real market itself? A.—They aim to stand clear of the real market.

Q.—How about the privilege system? A.—We might be called upon to offer a great amount of wheat over-night.

Q.—After the market closed? A.—Where we get the people in the morning to offer a great quantity of wheat, and we want to offer all of our agents some and don't want to run the risk of selling over-night, we might step in and buy 500 calls, so that we would not be caught without the wheat on hand.

Q.—A one-way market? A.—It is usually calls we would buy. From the exporter's point of view that is the protection he can get over-night and not take the risk of holding the whole quantity of wheat. He might buy a quantity of wheat which he is going to offer and buy half as many puts in case the men abroad did not take it over-night.

THE CHAIRMAN—It has no long run influence on the price? A.—No.

Q.—It is merely a method of bridging from one day to the next?. A.—Yes.

MR. CHARLES E. HAYLES (called)

Examined by Mr. Pitblado.

Q.—You are the manager of the Canadian Consolidated Elevator Company? A.—Yes, and Vice-President.

Q.—You have a line of country elevators and terminals and also carry on a commission business? A.—We have 143 elevators in the Province of Manitoba and Saskatchewan. Their capacity is 4,600,000 bushels. We have a terminal elevator in Fort William with a capacity of 1,750,000 bushels and one at Port Arthur with a capacity of 1,500,000 bushels.

Q.—You do not do an export business? A.—Not directly.

Q.—You are confined to your handling and merchandizing of grain that goes to the seaboard from Fort William? A.—Yes, we do some shipping so far as the Bay ports.

Q.—But you do not go into the seaboard with your merchandise? A.—No.

THE CHAIRMAN—You operate in the range between the farmer and Fort William? A.—Yes, practically speaking, although we do a small amount of shipping at times to the Bay ports and Buffalo.

MR. PITBLADO—You have been in the elevator business, how long? A.—Nineteen years, since 1912.

Q.—That has been your business ever since? A.—Yes.

Q.—You have moved up from operator at country points to inspector, superintendent and so on, until now you are general manager of this company? A.—Yes.

Q.—You know the way in which your country elevators are operating? A.—Yes.

Q.—What use do you make of hedging on the futures market and hedging of your grain? A.—We make full use of the hedge. We hedge our purchases as quickly as we can hedge them.

Q.—Always? A.—All the time.

Q.—Do you ever make an exception? A.—Small exceptions made one way or the other in estimating our purchases over-night.

Q.—But apart from the matter of accuracy in estimating do you hedge systematically? A.—That is our policy. We do not deviate from it.

MR. COMMISSIONER EVANS—You were not caught from it in 1929? A.—We were not.

THE CHAIRMAN—That is a real automatic machine? A.—That is our policy.

MR. PITBLADO—You heard Mr. Smith describe the operation of hedging. Sometimes he hedges the next morning on the opening of the market and sometimes he would estimate the receipts during the day itself and hedge. Do you follow that plan? A.—I did not hear Mr. Smith's evidence.

Q.—Tell me what you do? A.—But that is exactly the plan we follow.

Q.—In normal times you hedge next morning? A.—That is a matter of judgment to a certain extent. We estimate our purchases and sometimes we may hedge them and we have to follow our judgment as to whether we do that during the day or wait till the following morning.

Q.—About the switching of hedges, that is when you hedge your grain, how do you select whichever of these five months you hedge in—you hedge entirely on the Winnipeg market? A.—Entirely on the Winnipeg market.

Q.—How do you select your month? A.—October would be the first delivery month. We dispose of as much grain in the October future as we consider we can deliver and then if necessary spread it to other future months. There may be times when the relative difference between May and October may change to a carrying charge and we may switch our October hedges into the May, September or November, as the case may be.

Q.—Is there much switching of hedges from one month to another in the operation of your business? A.—Sometimes there is.

Q.—In any event the same quantity of cash grain would be represented by a number of trades in the Clearing House records? A.—Yes, possibly three or four different trades on the same 100,000 bushels.

Q.—On the sale of grain, when you take it to Fort William, what happens then with the hedge you take out against it? A.—We repurchase the hedge.

Q.—Or pass it on to your purchaser? A.—We make an exchange of futures if the purchaser wants it.

THE CHAIRMAN—Independently on the open market? A.—Independently on the open market.

MR. PITBLADO—Or through the Clearing House? A.—Yes.

Q.—The volume is the solution of a double transaction you try to short-circuit? A.—No.

Q.—Selling and buying and hedging in your business on the same day for the same quantities of wheat? A.—Yes, but they would be distinct transactions.

Q.—But it increases very materially the amount of grain going through your hands? A.—Yes.

Q.—And the same thing might happen at the Lake Ports? A.—Yes.

THE CHAIRMAN—Are we to understand that even where you have that it will be always twice the main transaction?

MR. PITBLADO—Yes, that is the least.

A.—There is the occasional sale, that is the flat sale that doesn't do that.

MR. PITBLADO—But the evidence is that practically on all sales there is a double transaction.

THE CHAIRMAN—And there would be a lot more if there is any futures selling?

MR. PITBLADO—Yes.

Q.—Did I put the same question to you as I put to Mr. Smith: who are the people you sell to? A.—Well, we sell cash grain to anyone in the business who wants to buy it, exporters, and others, and millers.

Q.—Millers and exporters and other companies? And are there representatives on the Winnipeg Exchange of a number of these people who buy this grain from you and take it from you at Port Arthur and Fort William? A.—Yes.

Q.—There are people there who are known as exporters? A.—Yes.

Q.—And there are others who represent old country importers right on the Winnipeg Exchange? A.—Yes.

Q.—So that your market is confined to those representatives? A.—Yes.

Q.—Those are your main buyers on the Winnipeg Exchange? A.—They are practically our total buyers.

Q.—Now the millers are Canadian millers. They are one of your customers. What do these millers do when they take over the cash grain? A.—They exchange the future.

Q.—So that the future goes to them again? A.—Yes.

THE CHAIRMAN—Does that appear twice?

MR. PITBLADO—Yes, twice, with the miller. And again I am going to suggest they hedge this flour through this market and the contracts they have made to sell flour in advance; they hedge the grain they use for it and to some extent hedge the flour.

MR. COMMISSIONER BROWN—It would have to be reported to the Clearing House through the Exchange as a purchase or sale? A.—Yes, it would be.

THE CHAIRMAN—It is not done by the endorsing of the document? A.—No.

MR. PITBLADO—You would put in a slip to the Clearing House? You put in daily to the Clearing House one slip for purchases and one slip for sales to the Clearing House? A.—Yes.

MR. COMMISSIONER BROWN—It would have to be reported to the Clearing House to keep the record clean? A.—Yes.

MR. PITBLADO—And they keep the books of that transaction and the price of the cash grain and the price on which the futures are exchanged are on the note? A.—Yes, on his note.

Q.—I understand the future trade on that is based on the future price on the Winnipeg market at the time the transaction goes through? A.—It is usually but not necessarily.

Q.—But it usually is? A.—Yes, in practice.

Q.—Now, Mr. Hayles, I am going to ask you about off-grades: You do buy in the country off-grades, off-grade grain? A.—Yes.

Q.—And that, of course, is not what you call contract grain? How do you hedge the off-grades? A.—Well, the system we followed is that it is hedged on the off-grades.

Q.—You risk something there? A.—Yes, quite considerable.

Q.—Tell us what the risk is. A.—Well, in case of advancing markets we are liable to run into the difficulty of having the future advancing and the spread on the low grade widening out.

MR. COMMISSIONER EVANS—It would widen because——

THE CHAIRMAN—Yes, I understand the spread widens out. I rather understood it widens relatively more.

MR. PITBLADO—He takes the risk of there being a difference between the spread.

THE CHAIRMAN—When you speak of a spread widening, do you mean in percentage or widening absolutely?

MR. PITBLADO—I mean relatively.

MR. COMMISSIONER EVANS—But you would lose if it widened absolutely? A.—Yes.

MR. PITBLADO—They use the market for that and you use your off-grade grain on that? A.—Yes.

Q.—Now, in the off-grades of grain, if you did not use the futures market what would be the price you would pay the producer? A.—Well, if we had to take a chance on the price for that grain we would have to widen the market in the country to take the actual widening of the spread.

Q.—I am going to ask you this: From your opinion that you have formed in the experience of the trade, what effect, if any, has the dealing in grain futures upon the price received by the producer?—And I am speaking not of it from the point of view of the price to the producer. A.—Well, there is no question in my mind that the futures enable us to operate on a narrower margin than if we were without the futures protection.

Q.—And what is the result on the price? A.—We would pay a better price than if we were without future protection.

THE CHAIRMAN—What is the effect on the price you get? A.—I think it gives us a better price.

Q.—What difference does it make on the price paid by the consumer, if you all get a higher price all along the line? A.—I don't think it makes any difference.

Q.—You think he pays the same price? A.—Yes.

Q.—Surely, if the farmer gets a better price and you get a better price, somebody gets squeezed somewhere. Or somebody gets a lower price than you do? A.—Well, I would think that the consumer and the miller would pay slightly more than under the other circumstances, although if we worked on higher margins it would affect the miller. But I don't think in that case the farmer would be the man.

MR. PITBLADO—Somebody would be making a profit in between. Well, I was going to say this: If the farmer was paid less. You want more money for operating your elevators and so on. That is, you take the risk?

MR. COMMISSIONER BROWN—You carry your own risk and your own insurance and, therefore, have to build up your own reserve? A.—Yes.

THE CHAIRMAN—There is a lot of idle capital in the industry. Each person is building his own reserve! You say you give a better price than your price would be without futures? A.—Well, it protects the producer and makes business safer for us.

MR. PITBLADO—You don't make more money in your business with low prices to the farmer than with high prices? It is all on bushels and figuring. A.—Yes, it is volume that counts.

Q.—And your country elevator business as well as the handling that is done in the country points and the rates at the terminal are determined by the Board of Grain Commissioners? A.—Yes.

MR. COMMISSIONER BROWN—I don't know what you mean by that. Both this man Smith and Mr. Hayles say they don't pretend to make money out of the purchase and sale of wheat.

MR. PITBLADO—They make some money.

MR. COMMISSIONER BROWN—Well I asked Mr. Smith that question and he answered it that way; he said, "All we endeavor to do is to make money out of the carrying and storage.

(MR. S. T. SMITH here rose in the body of the hall and returned to the witness stand).

MR. S. T. SMITH—Might I answer that Mr. Chairman?

CHAIRMAN—It was put in one way and I put it in another. A.—What I thought you meant was, "Did we wish to eliminate everything but the rise and fall in price?" And I said we would endeavor to make all the money we can in the handling.

MR. COMMISSIONER BROWN—What about storage? A.—We buy it in the country at a price that will enable us to have a little margin in the sale, that is, whatever the street price is. To buy lower than we sell. We are not making on the fluctuation of the market. The grain in the country is not worth as much as it is when forwarded to the seaport. Is that all right?

MR. COMMISSIONER BROWN—Is it all right with you? Do we still understand you to say that it is solely on the handling and the transfer? A.—We try to make a profit in the buying from the farmer and the selling at Fort William and buying the wheat and selling it for export. We try to make a profit. It is not on the fluctuation of the market but we try to buy cheaper than we sell in Fort William and have a little profit.

THE CHAIRMAN—If the price of grain never altered at all, no fluctuations, you would bear the cost of transferring it from the different points and you would want to cover that and would add a little profit to that? A.—Yes, would add a little profit to that.

Q.—But you say it is only a part of that particular function that you perform. A.—Yes.

MR. COMMISSIONER BROWN—It is all profit. You never take a loss. A.—No, I did not say that. I wish it were so.

THE CHAIRMAN—Mr. Smith might give the Commission a little written statement showing the various elements entering into the various services which you perform and showing how you would split them up.

(The witness, Mr. S. T. Smith, retires).

(Resumption of evidence of Mr. C. E. Hayles).

MR. COMMISSIONER EVANS—When you make a purchase from a farmer at a country point your agent would know what today's quotations are and then you would buy from the farmer at a certain spread below the price of grain at Fort William? A.—Yes.

Q.—Now what factors or elements do you take into account? There is the cost of bringing it from the elevator? A.—Yes.

Q.—And interest during the time in which there was a lapse of time in the movement of the grain and also for overhead profits.

THE CHAIRMAN—In addition to the commissions you pay you have a profit? A.—Yes.

MR. PITBLADO—Because there is the value of the elevator and the taxes and overhead charges? A.—Yes.

THE CHAIRMAN—Capital.

MR. COMMISSIONER BROWN—And the price paid to the farmer is paid by all dealers? That is all alike? A.—I think it generally runs along about the same, though it is not positively the same; different conditions at different points.

MR. COMMISSIONER BROWN—Depending on the competition? A.—Depending on circumstances and the size of the crop and where they can sell it. There is not an absolutely uniform number of sets per bushel everywhere. It is about the same, but not absolutely the same.

Q.—You yourself buying grain at various points in the prairie provinces on the same day, do you pay the same price? A.—We have the list prices we send out.

Q.—To all your agents? A.—Yes.

Q.—Which governs your Company at least? A.—Yes.

Q.—Some other Companies might pay more or less? A.—Yes. But I think it is pretty uniform in all the markets.

MR. COMMISSIONER EVANS—The same elements enter into all the way? A.—Yes, the same elements.

MR. PITBLADO—Mr. Chairman, you are going into what are called street prices and they are another question.

MR. COMMISSIONER BROWN—Yes.

MR. PITBLADO—And they are discussed in this Turgeon Commission's Report at page 10 on for four paragraphs, how the elevator company fixed the price, and one of the troubles before that Commission was that question,—what is the relation of street prices to track prices and is there a fair relationship.

MR. COMMISSIONER BROWN—Yes, and we went into that.

MR. PITBLADO—What I want to say is, although all the elevator companies use street prices at a certain figure under the cash price, the cash price being the price at Fort William on the grain at Fort William, every elevator throughout the country is wired by somebody what the prices are? A.—(The witness)—They are even radioed, telegraphed.

Q.—What is your spread between the cash price and the Fort William price for street wheat? A.—It runs five and a fraction on 1, 2 and 3 Northern and six and a fraction on the others.

Q.—And you cover all the charges until you get it to Fort William? A.—Yes.

Q.—And in that price is included all the profit you expect to make? A.—Yes.

Q.—We can go into that. It is covered in that Report.

THE CHAIRMAN—Yes.

MR. PITBLADO—Now as to the price paid in the country, Mr. Hayles, this man buys it in the wagon load? A.—Yes.

Q.—Supposing the man in the country has a carload of wheat, then what price do you pay him on the carload? A.—We pay him the track price.

Q.—You pay him the full Fort William price plus commission? You get the handling charge of one and three-quarter cents? A.—Yes.

Q.—That is fixed by the Board of Grain Commissioners. A.—Yes.

Q.—And then charge him — ? A.—One cent a bushel.

Q.—And, of course, he pays the freight to Fort William? A.—Yes, and taking into consideration this track price, I think it is half a cent over Fort William.

THE CHAIRMAN—Would this be a convenient point for you to adjourn?

MR. PITBLADO—I think so.

(Commission adjourned until 2.30 p.m.)

(Continuation of examination of Chas. E. Hayles, by Mr. Pitblado:)

THE CHAIRMAN—Mr. Pitblado?

MR. PITBLADO—Mr. Chairman, I find that Mr. Hayles had prepared a typewritten statement and it would probably be shorter if he reads the rest of it, rather than if I ask him questions. I can give the Board copies. I think he has expained the first three paragraphs of the first page.

MR. HOSKIN—Would we file it as an exhibit?

THE CHAIRMAN—Yes.

(Statement of Mr. Hayles referred to, produced and marked Exhibit 6.)

MR. PITBLADO—Mr. Hayles started off with the first three paragraphs on the first page. I think they were pretty well covered. Then I will start off with the beginning of the bottom paragraph on the first page.

MR. HAYLES—The value of the grain futures market to the country elevator operator is that by the use of it he is able to avoid the risk of price fluctuations from the time he purchases the grain until he is able to move it into position for cash sale by making sale in the futures market each day of amounts approximately equal to his daily purchases. The margin under the terminal market price (in our case Fort William price) must be sufficient to take care of the following charges:

(a) Freight and other charges to take the grain from the country station and place it in store Fort William.

(b) Operating expenses in which a small amount for profit must of necessity be included.

It is, therefore, seen that the prices paid at country points are at a discount under the Fort William prices, depending upon the distance of the station from Fort William.

Prices are sent out to the country elevators by the head office both by telegraph and radio, practically all elevators now being equipped for radio reception. Prices are sent out twice a day, half an hour after the opening of the market in the morning and again at the close of the market, the business being carried on at the prevailing prices until such time as the new change is received. The elevator agents telegraph or telephone the amounts of purchases of each grain above certain amounts each day to their head offices so that the companies know each day the approximate amount they have purchased.

In protecting the daily purchases through the use of the futures market the companies make sales in whatever futures month they may select, depending upon the probable length of time it will take to get the grain moved forward and put in store, the grain

having to be in store Fort William and/or Port Arthur to be deliverable upon the futures contracts of the Winnipeg Grain Exchange.

As pointed out the prices paid are always based upon the price in store Fort William for the grain, commonly called "spot price." This price at all times bears a direct relationship to the futures price as the futures contract calls for delivery of specified grades at certain fixed prices. When the grain comes forward and is unloaded in Fort William, if during the current month, it may be delivered directly to the purchaser of the futures contract, or it may be sold to a cash grain buyer, such as a miller or exporter, and an equal amount of futures contract taken in exchange from him. Only the higher grades qualify for delivery on the Winnipeg futures market, so that when buying those grades which are not deliverable on the contract a certain risk in the fluctuation of the price must be assumed by the purchaser. By keeping all wheat stocks fully protected by sales in the futures market country elevators are able to obtain large loans from the banks to carry on their business, very nearly equal to the value of the grain, so that companies may carry on a very large business with a relatively small amount of capital, thus being the means of providing good healthy competition in the business.

In addition to purchasing grain outright in the country elevator, the elevator companies are always ready to purchase carlots of grain, which the customer may have shipped forward to terminal markets for his own account. Prices quoted usually vary depending on the position of the grain relative to the Fort William market. In the first place, we have the track price, which is for grain loaded into a railway car at a country siding and billed by the Railway Company. Then we have the Billed and Inspected price, which prevails for cars which have passed official government and inspection points and have had the grade officially set. Then there is the full Fort William price for grain in store in terminals at Fort William or Port Arthur, where both weights and grades have been set by the official Government Inspection and Weighing Departments.

From the foregoing it will be seen that the maintenance of a ready cash market at the country points is absolutely dependent upon the immediate availability of a futures market in which offsetting sales can be freely made. The advantage of having a futures market close to the centre of production is that the costs of taking the grain from the country station to that primary market are known, not subject to variation, so that no margin need be taken to cover any unknown factors, whereas if the futures market were not available, in order to obtain a basis for setting prices it would be necessary to go further afield to where a sale for future delivery could be made and depending on the variable costs and the greater uncertainty in cost to carry the grain to that market and possible variation in them from time to time would mean that a much wider margin would have to be taken to cover these uncertainties.

It is submitted that the maintenance of an open futures market is of inestimable value to the producer in so far as it is the connecting link between the producer and the consumer and allows the grain to be carried from the producer to the consumer from the various sections of the grain handling, distributing and manufacturing trade with practically no margin taken for price fluctuation, so that the grain is carried from producer to consumer over considerable periods of time, and in some cases over a thousand miles in distance, with very little toll in the actual costs of physical handling.

THE CHAIRMAN—Are you asking any questions on that specifically?

MR. PITBLADO—No, not on that. I was going to ask about something else.

By Mr. Commissioner Evans:

Q.—You are what might be called a representative of the primary cash market; you deal from the country points to the primary cash markets at Fort William? A.—Yes.

Q.—Did you ever have any difficulty in selling cash wheat at Fort William that you wished to sell? A.—No.

Q.—You always have a market? A.—I always have a market.

Q.—Even if it is off grades? A.—There may have been rare cases of where it would be difficult to sell certain off grades. Usually they can be sold.

Q.—But on most of the grades there is a market price each day? A.—Yes.

Q.—And at that market price, or approximately, you can sell? A.—Yes.

Q.—You may not be able to sell to an exporter, because wheat may not be moving for export at the rate at which you are receiving delivery of it? A.—That is quite true, but there is usually someone in the market will take the grain.

Q.—Why is that? Has that any relation to the futures market? A.—I would say so, because the reason they take that grain is because they consider it workable at certain periods, and in any case they can always hedge it, and protect themselves against any particular loss.

Q.—Is that the point, that because it can be hedged therefore there is a purchaser for cash grain always in the local market? A.—I would say that is the case.

By The Chairman:

Q.—You wouldn't be able to count on a purchaser so readily if the purchaser himself were not able to sell futures? A.—I don't think we could.

By Mr. Commissioner Evans:

Q.—Particularly at the time when Western Canada is receiving grain much faster than the world is consuming it? A.—Yes.

By the Chairman:

Q.—Do you know anything about the business of that purchaser of yours, whether he is doing it on his own capital, or whether he is also relying on the bank assistance? A.—I would say in the average case they are relying on bank assistance.

Q.—Would the banks be equally shy on giving him full credit if they had no hedges? A.—I imagine so; I am quite sure in our case——

THE CHAIRMAN—Shall we have any evidence upon that?

MR. PITBLADO—Yes, the bankers will be here.

By Mr. Commissioner Brown:

Q.—You spoke of the practice of hedging grades on contracts? A.—Yes.

Q.—You are carrying a certain risk yourself, that is, there is the danger of a spread? A.—Yes.

Q.—In your experience have you suffered loss in that way? A.—Yes, there have been several times in my experience that we have suffered loss through the spreads widening.

Q.—And other times you have had profits? A.—Yes.

Q.—Does one pretty well offset the other? A.—I wouldn't want to say definitely as to that, but I would imagine reasonably so.

Q.—If it had not been reasonably so you would know very definitely that it was so? A.—Yes, that is true.

By the Chairman:

Q.—Are you passing with the same witness to another point?

MR. PITBLADO—Yes, I was going to ask him now about the commission business, because as Mr. Hayles has said they are also carrying on a commission business.

By Mr. Pitblado:

Q.—Is that run as a separate department? A.—Yes.

Q.—Have you in that commission side of your business taken business from people who come in and wish to buy or sell on the futures market? A.—We do only in the cases of our country customers.

Q.—You confine yourselves to country customers? A.—Absolutely.

Q.—So you do not carry on what might be called a city business? A.—No, we do not.

Q.—But for country customers you do? A.—Yes.

Q.—And in that business you carry out the wishes of your customers? A.—Yes.

Q.—As to whether they want to buy or sell? A.—We do.

Q.—I was just going to ask you, in your experience, your having country customers, what are these customers mostly? Are they buyers, looking to a higher price, or sellers, looking to a lower price? A.—I would say 90 to 95% are buyers.

MR. COMMISSIONER BROWN—In other words, they are optimists.

THE CHAIRMAN—They are bulls. A.—They are bulls, yes.

By the Chairman:

Q.—Your business in that particular field, the commission business, is pretty scanty in times of falling prices? A.—Practically nothing.

Q.—But when the price is generally on the up-grade, due to short crop or other reasons, you have plenty of these people coming in? A.—Yes.

Q.—But on the declining price do you find people coming in and purchasing? A.—Yes.

Q.—But still with the idea of being bulls? A.—Yes, always bulls.

Q.—If those people are coming on the one side, who are the people on the other side of their bargain? Who are the bears? A.—It would be impossible for me to say. I would imagine chiefly hedgers, or perhaps I should not say hedgers, but to a certain extent hedgers.

Q.—By hypothesis this is a very active market much in excess of hedging requirements. There must be two sides to every bargain. Somebody is accepting their wager. They are really wagering their knowledge of the futures price. Who is accepting their wager? A.—It is hard to determine that. We know from our own books that our customers are buyers, but I can't tell who the actual sellers of that grain are from the other side, but to a certain extent it would be hedging. There may be others who are pessimistic, feeling just the opposite to our people, and they are selling it to them.

Q.—Your bull customers are the broad public?

MR. PITBLADO—Country public.

A.—In our case it would be the country public.

Q.—I want to know who are the converse side of that. What class of person they are? You have already told us that class of person is not a bear. They are not selling and buying to each other. What is that person? A.—The others would be chiefly hedgers, in my opinion.

MR. PITBLADO—Hedgers are selling at the same time.

MR. COMMISSIONER BROWN—It would only take care of a certain portion.

MR. PITBLADO—Yes, but in a large market it would have some effect.

Q.—Because of this bull market the cost has gone up much more readily than in the ordinary case, and there must be a superstructure of pure speculation above the hedging than usual. We want to get at who are the people carrying this ultimate risk against the bulls? A.—I would say the hedgers,, and certain speculators.

Q.—What class of persons are the certain speculators. Wheat firms? A.—No, I wouldn't say they were firms.

MR. COMMISSIONER BROWN—Somebody that understands the market better than your customers? A.—No, I wouldn't say that either. I don't think there is anybody who understands the market, but there may be certain pessimists on the other side who will take the opposite side to the purchasing side.

By the Chairman:

Q.—They have to increase in volume just as much as the bulls? A.—Absolutely.

Q.—The bulls may take the initiative, that may be the cause, but somebody is prepared all along the line to accept these offers. We want to see whose books it is that show this increased trade. It can't be the bona fide hedger because his trade goes along with the quantity of grain in the ordinary way. It is somebody in addition to them. A.—But we will say that the country purchaser, he will be taking a certain portion of his purchases from the hedging element.

Q.—Agreed, but we start from this point, that when your country public are coming in heavily as bulls, the quantity of speculation over and above what is required for carrying hedging is becoming greater. Now at that stage somebody must be taking the other side of the bargain. It is not your country public, who is it? A.—The only reply I can give to that is a portion of it is hedging, and the balance certain speculators.

Q.—I want to get to the nature of those speculators. Are they people abroad in distant ponits? A.—They may be; some of them would be no doubt and others are probably city people and a certain portion of the country. I would say probably not more than ten per cent might be taking the short part of the market. It is hard to say who would be selling to them.

Q.—At any rate, it is a different class of public to your country public, whose constitutional psychology is that of a bull? A.—Yes.

Q.—And if I can mix the metaphor, a bull who acts rather like a sheep, they follow each other. A.—To a certain extent they do.

Q.—There is somebody on the other side of the shield who is much more calculating, and less sheep-like?

MR. COMMISSIONER BROWN—He is a wolf.

A.—There might be two flocks of sheep.

Q.—If that is so, I want to know who the other sheep are. Are they speculators on a much wider field in the international market? A.—Well, they may be. That is a question I don't think I am qualified to answer.

By Mr. Commissioner Evans:

Q.—At some point your public which bought, or the individual who bought through you, would sell again? A.—Yes.

Q.—And that individual might be the seller when the wheat crop came up.

By Mr. Pitblado:

Q.—We had a falling market last year, as everyone knows, and quotations were practically falling steadily, that is if you take the general record. It might vary a little day by day, but it was what I would call a bull market. Did you have speculators on that market buying as it was going down? A.—We had country purchasers coming in on the falling market.

Q.—What were they doing? A.—Buying.

Q.—In other words, they were thinking the market was going to go up? A.—Absolutely.

Q.—And the falling market did not drive them away? A.—No.

Q.—But they thought the market had reached a low enough price and that it would be resilient and go back again? A.—Yes.

Q.—Instead of that it kept on going down? A.—Yes.

By Mr. Commissioner Brown:

Q.—Does it follow that your customers as a rule are the losers in the game?

MR. PITBLADO—The speculative customers?

Q.—Yes. A.—Yes, I would say all speculative customers, not all, but the big percentage of speculative customers lose.

By the Chairman:

Q.—Therefore, this other unknown class of people are the people who gain? A.—No, of course, the man that has been short grain from the top of the market and takes the trades in at a profit, he naturally makes money, but I think the speculator on each side of the market eventually, the big percentage of them lose, whether they buy or sell, that is my opinion.

By Mr. Commissioner Evans:

Q.—In 1929 you bought cash wheat, I suppose, at all stages of the market? A.—We did.

Q.—Probably from $1.70 odd all the way down? A.—Yes.

Q.—And some of that you sold ultimately as low as what? A.—If we purchased it it was sold immediately.

Q.—You hedged it immediately? A.—We hedged it immediately.

Q.—But you did not actually dispose of your cash grain? A.—No.

Q.—If you held it until February you have to sell out say at $1.10? A.—Yes, and some of it was held even longer than that, and sold at a lower value than that.

Q.—If you bought say at $1.50, and sold the cash wheat at $1.10, there is a loss of 40 cents a bushel on that cash wheat, which this particular firm did not suffer from because that risk had been transferred to the futures market.

MR. PITBLADO—The producer did not suffer, Mr. Evans.

MR. COMMISSIONER EVANS—The producer gets the $1.50, but I was trying to account for who made the profit. It was the saving of a loss to the merchant.

Q.—I was going to ask Mr. Hayles this question: I don't know whether he can give it. During this crop of 1929-1930, Mr. Hayles—you know the crop I am speaking of—you carried on hedging operations, and during that time you bought large quantities of grain from country producers? A.—Yes.

Q.—Can you tell me the average price that your country producer received from you throughout that period? A.—Offhand I can't give you the figures, but we have them in the office.

Q.—Could you give me them roughly and verify them?

THE CHAIRMAN—Why not take them for a period of five years, because that was a very exceptional period?

MR. PITBLADO—I will do it, Mr. Chairman, right through, and we can compare it right clean through, but I am taking that year, because this is a bad year. I am trying to show what the hedging did in that particular year. I think if I can show this Commission that by virtue of the hedging operations the producers in that year got the benefit of higher price to himself, that I have performed some function towards assisting this Commission.

THE CHAIRMAN—You are assisting us already very considerably.

Q.—I don't want to ask you unless you can give it to me approximately. A.—Speaking from memory I think the figure is $1.32 basis One Northern.

Q.—That is for the crop year 1929-1930, down to what period in 1930? A.—July 31st.

By Mr. Commissioner Evans:

Q.—Would that take into account all the wheat you purchased in that year?

MR. PITBLADO—All purchases of wheat; I think I am correct.

WITNESS—I would rather file a statement with you, Mr. Pitblado.

By Mr. Pitblado:

Q.—But they are all based on No. 1 Northern at Fort William? A.—Yes, that is true.

Q.—And it is on that you base it? A.—Yes.

By the Chairman:

Q.—Are you acquainted with an analysis that was made of the 1926 May future, by the United States Agricultural Department; dividing the speculative element into two sections they came to the conclusion that on the whole bull movements were started by the largest speculators and followed up more or less on a lag by the large group of smaller speculators, and the large ones were always in front: they started selling before the others, and their movements were always coincident with price, the others followed at a distance? A.—Yes.

Q.—Have you followed the analysis? A.—No, I haven't.

Q.—Have you from your experience on the market here, Mr. Hayles, any knowledge, say during the last couple of years, because they are the worst, of any group or body or individuals who have been endeavouring to manipulate the market? A.—I have no knowledge of such a thing.

By the Chairman:

Q.—May I ask that question in a different way, avoiding the use of the word manipulate, and say: Have you any knowledge of those bull and bear movements having their initiative in a particular section of the market, or special section of the market? A.—I have no knowledge.

Q.—Which the other markets would follow? A.—I have no knowledge of that fact.

Q.—You have never been able to discern that? A.—No.

Q.—You have never seen a tendency for a certain number of leading people whose judgments are rather valued going ahead and then receiving a group of small orders from other people who follow suit? A.—No, I never have.

Q.—You deal entirely with the small fellow? A.—Chiefly.

Q.—Have you ever noticed his tendency to come in rapidly after somebody else has started a rising market, or does he begin it? A.—I think the tendency of the speculative country public is to come in once the market begins to straighten up.

Q.—It usually does take a start before he comes? A.—Yes.

Q.—Therefore that is consistent with this conclusion that was reached by the Committee that I was referring to; that the movements are started and the small people they follow? A.—I wouldn't say that, but from my observation I have noticed that there is a certain percentage of the country will follow the country regardless of anything; there is another class that waits until there is an upturn before they actually come in, because they figure the bottom has been reached.

Q.—Have you any reason to suppose—I won't use the word manipulation—suppose that superior strength and foresight of a certain class of larger people are able to turn more quickly than your group of small people, and therefore sell at the time they are still buying? A.—No, I have no reason to even suspect that.

Q.—I don't want to say manipulation, because it doesn't follow that it is; it is simply that they decide to make the turn first. A.—I have no reason to believe that, Sir Josiah.

By Mr. Pitblado:

Q.—The people that are handling commissions through you, they would be influenced by advices that would be sent to them, either sent out by radio, or any other advice indicating that the price of wheat was going to go up? A.—Yes.

MR. PITBLADO—I don't know how far I am going to follow that, Mr. Chairman, in view of the conditions; but that is always an element in that sort of purchaser, all advices sent out, and how much they are going to give regard to the opinion of the person who happens to send it out; and I think I will stop just at that, because that suggests where the information could be got by your country people as to whether they ought or ought not to buy.

THE CHAIRMAN—Are you going to ask the witness whether they take the initiative in giving advice?—I won't say tips.

By the Chairman:

Q.—Do you take the initiative in giving tips to your people as to how the market is going? A.—We never do.

Q.—Do you send out a circular to those people at all, with prices? A.—No.

Q.—You don't say, "The market is beginning to look bullish, and they are buying"? A.—We don't advise them one way or the other.

Q.—Is that a general practice? A.—I imagine it is a general practice with the elevator companies at least.

By Mr. Commissioner Evans:

Q.—That is, not to send out? A.—Not to send out any circulars or encourage them one way or the other.

Q.—If the small person does not send it in to you he does so because he gets information from other quarters? A.—Well, if it is tips on the market or advices to buy or sell he must get them from other sources, because he doesn't get them from us.

By Mr. Commissioner Brown:

Q.—He gets them from the local brokers likely? A.—Local brokers in the country, Chief Justice; I have no idea how they operate.

By the Chairman:

Q.—Before you come to the next one I just want to put the main issue to you again. We have to enquire into the effect of this system upon the price received by the producer, and I just want you to divide that effect into three things: one effect could be a change in the average long-run price; another effect could be without any such change, it just fluctuates about the general average; and the third kind of change could be much more rapid fluctuation. Those are the three effects. To get it distinctly in your mind: would you say that the effect is to change the average price received by the producer in the long run to his advantage? A.—By a futures market?

Q.—Yes. A.—Yes, I would say so.

Q.—Would you take the second effect. What effect has the futures market upon the size and the range and the violence of the fluctuation? A.—I think it narrows the fluctuation.

Q.—Makes it smaller? A.—Yes.

Q.—What would be your judgment: are the fluctuations made more frequent or less, or remain the same frequency, or what size? A.—Well, they would be less frequent in my opinion with the futures market.

Q.—Are the effects of the fluctuation smaller and if they are less frequent are they to the farmer's advantage? A.—I would say they are.

Q.—You think under all three heads the producer is not hurt by the futures market? A.—No, in my opinion he is not.

MR. PITBLADO—I am going to ask to be permitted to file with you a document that has just been printed. I don't know whether you have seen it. It is called "Trading in Futures"; it is the International Chamber of Commerce preliminary report that has been printed for free distribution for the Washington Congress of 1931. It is called "Trading

in Futures; Its Aim and Functions and Legal Treatment." The legal treatment I don't need to bother about; you are not concerned with that, I think. So far as the other is concerned, I am filing this as an Exhibit. I am having copies made so that each one could have one; it has just come in; it is impossible to get it. The names of the Committee are given here: the President is Mr. Rice, a cotton merchant of Liverpool; the man that is called the Rapporteur is a Mr. Owen Hughes, the British Administrative Commissioner at the International Chamber of Commerce. And then the members are given here; they include all classes of business, including grain, and they are in this pamphlet.

THE CHAIRMAN—Do you wish to put that in as Exhibit No. 7?

(EXHIBIT NO. SEVEN—Pamphlet referred to above, "Trading in Futures; its Aim, Functions and Legal Treatment," filed as Exhibit No. 7.)

THE CHAIRMAN—Do you wish to draw attention to any particular section?

MR. PITBLADO—I haven't had even time to read it.

THE CHAIRMAN—Then you take your chance on what they find?

MR. PITBLADO—Yes; I think the Commission ought to have it. My view is that the Commissioners should look at everything along that line that is available, and this is the very latest that has come in; it has only come into us a day or two ago.

MR. HOSKIN—We are going to call now for you, Mr. Ross.

MR. F. W. ROSS (called)

By Mr. Hoskin:

Q.—You are the Western Superintendent at Winnipeg of the Bank of Nova Scotia? A.—Yes, sir.

Q.—And you are also, I understand, Chairman of the Manitoba Branch of the Canadian Bankers' Association? A.—The Western Section of the Canadian Bankers' Association.

Q.—And you have been connected with banking in Western Canada for how many years? A.—Approximately 16.

Q.—I understand your bank as well as the other banks handle a great number of grain accounts? A.—Quite a large number.

Q.—In those accounts you include the country elevator operator? A.—Yes, we do.

Q.—The terminal elevator operator? A.—Yes.

Q.—And the exporter? A.—Yes.

Q.—The question was asked I think earlier about the amount of credit extended by the banks, say in the present year to the grain trade in its various branches? A.—The present year when we had sixty cent wheat?

Q.—Yes. A.—I have no figures prepared but I estimate from $175,000,000 to $200,000,000.

Q.—$175,000,000 to $200,000,000 in credits to the grain trades with wheat at sixty cents? A.—Yes.

MR. COMMISSIONER BROWN—Do you mean to say that is the amount standing out at one particular time? A.—No, that would be the total amount of credit granted.

THE CHAIRMAN—A revolving fund? A.—A revolving fund. It might not all be used at that time.

Q.—But that is the amount you would have standing out at that price? A.—Yes.

Q.—That did not represent the total advanced throughout the whole year? A.—No.

Q.—It only represented the maximum at any one time? A.—The aggregate total of the credit granted to dealers in grain.

Q.—By your bank? A.—No, by the whole of the banks.

MR. HOSKIN—Of recent years, of course, Mr. Ross, we have had two systems of handling grain in Western Canada, what we call the line elevator in the country of the private terminal interests and then we have had the Pool. In making your advance on grain, how do the banks protect themselves? A.—By security under sections 86-90 of the Bank Act.

Q.—Do you advance to your customers the full price that he pays for that grain, say, in the country how much do you advance? A.—I would say that the margin required is from ten to fifteen per cent.

Q.—Does that run through the trade, not only the country trade but the terminal business and exporter? A.—Yes.

THE CHAIRMAN—Is ten to fifteen per cent something that varies from the point of view of time or custom? Would you give some customers ten and others fifteen at the same time? A.—Yes, I would say that some customers with stronger financial backing would receive ten to fifteen per cent. There are others from whom we might exact a larger margin than fifteen per cent.

Q.—Do you vary the margin with time? A.—I do not understand.

Q.—Would you say that this particular moment is only a favorable moment for ten per cent and in six months time you might ask for twenty per cent? A.—Usually at the beginning of the season we fix the margin that our customers receive, in arranging our credit, and usually that is maintained throughout the season.

Q.—But it might vary from year to year? A.—Yes.

Q.—And sometimes you might want a larger amount even from the same operator? A.—Yes.

MR. COMMISSIONER BROWN—The margin is usually fixed about August? A.—Credits are usually applied for from the middle of August to the middle of September.

MR. HOSKIN—In fixing those credits at that time, what do the banks take into consideration beyond, of course, the financial standing of your customers? Do you go into the conditions of the world's markets or our own markets? A.—Not necessarily, only in a general way.

Q.—We know as a matter of fact in the west, Mr. Ross, that while the banks you say require that margin, you have not required that margin in connection with the Pools. You might tell us why. A.—You mean why we do not ask the Pool to hedge?

Q.—Yes. A.—At the beginning of the season they fix the initial price which we considered was a conservative price.

Q.—What advance do you make then to them in relation to the initial price which they fix? A.—The present season the advance was sixty cents, if I remember correctly, when wheat was at a dollar at that time, the market price was around a dollar.

Q.—That is, the initial price that they paid to the Pool in the country was sixty cents while the market price was at that time a dollar? A.—Yes.

Q.—In making your advance, did you require any margin on that sixty cents, or did you advance them the whole sixty cents? A.—We advanced the full sixty cents.

THE CHAIRMAN—Supposing they had made it sixty-five cents, would you have advanced sixty-five? A.—It is difficult to say. We were only asked to advance sixty cents.

Q.—It was in the nature of an estimate? A.—In the nature of an estimate.

Q.—And therefore you accepted that estimate as a conservative one? A.—Yes.

Q.—And being satisfied that it was conservative you would not have said we will only advance ninety per cent of it? A.—Exactly.

MR. HOSKIN—At the beginning of the season didn't the Pool want to make an initial advance of about seventy cents? A.—I do not think so.

Q.—You do not remember that? A.—I do not remember that.

Q.—In connection with your customers' business, we will take what we call the line elevators, in addition to this margin that you require from them, what other securities would you get under the Bank Act? Do you require them to do anything else? A.—Yes, it is the usual custom to require our customers to hedge their grain.

Q.—Is it your usual practice, or is it practically the invariable custom? A.—It is invariable with all our customers.

Q.—That does not, as you have already told us, apply to the Pool? A.—That does not apply to the Pool.

Q.—Before the Turgeon Commission, which you will remember was back in 1924, the evidence given by the bankers then was that it was a definite term of credits that all grain should be hedged? A.—It is.

MR. COMMISSIONER EVANS—When hedged you would advance eighty-five to ninety, or ninety cents, as compared with your sixty cents unhedged? A.—Yes, exactly.

THE CHAIRMAN—Supposing a dealer came to you and said: "I haven't hedged this wheat but I want you to give me one hundred per cent advance on the sixty cent price," would you do it? A.—A good deal would depend on his financial standing.

Q.—But it is not your practice to do that? A.—They do not ask us to do so and they do not expect us.

Q.—It is eighty-five or ninety per cent hedged or nothing at all? A.—I would not say that. Some financially responsible man might want to borrow money or obtain credit and we could not refuse him, that is where the man has the credit standing.

Q.—There is the point, he could borrow fifty per cent of the price without hedging? A.—Yes, I would say so.

Q.—Then you would not take the position that the banks would be out of the grain trade altogether if there were no futures? A.—No.

MR. HOSKIN—But country elevators as a whole could not really accommodate the producer in Western Canada if only getting the smaller amount? A.—It would curtail our operations and it would require more capital to finance.

THE CHAIRMAN—There would be a much smaller number of people in the business? A.—Yes.

MR. HOSKIN—You take not only the hedge of the grain but you take other securities? A.—Yes, and we take into consideration the financial standing of the customer.

Q.—The bankers had prepared a short statement, which I think you have, Mr. Ross, and one which you got up yourself. It was an answer to this question: Would the abolition of the option market or the limitation of it in any way affect the financing of the movement of grain by the banks, and if so how? Can you answer that? A.—The abolition of the option market would seriously affect the financing of the grain movement.

The chances of a rise or fall in market prices of grain must be taken by someone immediately the farmer disposes of his crop, and it happens that there is always a sufnciency of speculators willing to take these chances. If it were not so, the elevator companies would have to step into the breach and instead of conducting a purely merchandising business, as is now the case, carry the grain subject to the fluctuations of the market.

The possible effects of such a situation would be: (1) that grain dealers would seek to protect themselves against the risk of a fall in prices by reducing their price to the farmer, and (2) that many grain dealers would seek to avoid the risk of carrying grain, and take their profit from an immediate turnover, the ultimate result of which would be to hurry our grain to the market even faster than has hitherto been the case.

A further and serious result of the abolition of an option market would be the necessity for a market curtailment of banking credit to grain dealers. Because of the safeguard afforded by the Grain Exchange for hedging grain purchases, grain dealers are able to borrow from banks against grain holdings with a margin of only 10%-15%. If the banks' customers were not protected against the risk of a fall in price, it would obviously be necessary for the banks to exact a much larger margin—indeed, during a period of abnormally high prices the margin required might be such as to seriously cramp the smaller grain dealers, and so lessen the competition among buyers of grain.

MR. HOSKIN—I am filing that. (Marked Exhibit No. 8.) That is all I wish to ask Mr. Ross.

THE CHAIRMAN—You are speaking, I take it, more in a personal capacity than in a representative capacity, that is you have not taken any concensus of the banking view, you are speaking now of your own experience? A.—Yes.

Q.—It enables each person in the handling or producing of grain to pass on to some other quarter the risk attached? A.—Yes.

Q.—It does not go to the Bank? It ultimately rests on what we call the speculator? A.—Yes.

Q.—I suppose the speculator has a banking account? A.—Not if we know it.

Q.—He does not pay for this with money from the stocking? He must have an account somewhere?

MR. COMMISSIONER BROWN—His account goes soon after he becomes a speculator? A.—Yes.

THE CHAIRMAN—I am not asking you whether you advance money to speculators but to get into the grain market in any other way? A.—We would take into consideration the security offered.

Q.—That is you do not ask a man with good security, with stocks and shares, whether he is going to use this money in some way or other? A.—No.

Q.—But you know that he is putting it into the market in this way? A.—No, we do not know and if we did we would try to persuade him from speculating, if we knew it.

Q.—Taking this operation which benefits you all along the line and the burden of which is thrown on the person called the speculator, he is the person you would have nothing to do with, he seems to be a social outcast although he is a public benefactor. I am very anxious to find this curious person who everybody says benefits the community.
A.—He does not tell us that he speculates when he borrows the money.

Q.—But he does his good deeds by stealth? A.—Yes, he probably takes good care to keep that information from us.

Q.—It is a surprising thing that anybody would be doing these good deeds by stealth. If any of these people who are getting credit and that you suspect to be speculating, you must see the rise and fall of their dealings, in very active times through their banking accounts? A.—I never had any experience of that.

Q.—I suppose we would have to go to the revenue department or the taxing department for that? A.—Personally I have no evidence of that.

Q.—Did you find in very active times, when there is a bull market, that by speculators there is a greater call upon you for advances against securities? A.—No, I have never noticed it.

Q.—Do you infer that the bull market is made bullish by local people who risk their fortunes or by people on a world wide range, that is, that they are not people having open accounts with you but a world wide range of people, in London, Liverpool, New York and elsewhere? A.—I would not say really.

Q.—Isn't that really the inference that we may draw from your evidence? A.—Yes. We have no evidence of speculation.

Q.—You see those who have accounts with you but you do not see the others because they are spread all over the world? Isn't that right? A.—Yes, we do not see them.

Q.—Your answer is that you do not take any part in financing the speculative side? A.—No.

Q.—And if they come to you, you treat them as if they were not public benefactors?
A.—On the basis of his financial standing and the security he has to offer.

Q.—And ask no questions as to what he was going to do with the money?

MR. COMMISSIONER BROWN—You have already said if you knew he was going to speculate you would advise him against it? A.—I think we would, yes.

THE CHAIRMAN—It is rather hard on a man who is really carrying all the risks? A.—It is only advice.

Q.—Supposing the method of carrying these risks was not by futures at all but by insurance: would the banks refuse to have anything to do with the insurance company which took these risks? A.—I do not understand your question. He is insuring his risk, that is what he is doing when hedging.

Q.—If it is done, not through a speculative market in futures, by not having that market at all, but by paying a small premium into a world wide corporation which covered this risk by insurance, like fire insurance? A.—I do not feel competent to answer that question.

Q.—Have you ever thought of that? A.—No.

Q.—Have you ever known anybody who has done so? A.—No.

R. J. WILLIAMS (called)

Examined by Mr. Hoskin:

Q.—Mr Williams, what is your position with the Bank of Montreal? A.—I am the manager of the Winnipeg Office.

Q.—You have been connected with the banking business in Canada, for how many years? A.—Twenty-three.

Q.—And in that connection have you been familiar with the banking for the grain trade in its various branches? A.—Yes.

Q.—To shorten up because there is not much time, you heard the evidence given here by Mr. Ross a few moments ago? A.—Yes.

Q.—Do you agree with the evidence which he gave? A.—Yes.

Q.—He read a statement to the Commission which set out what stated to be his views. Have you read that statement, Mr. Williams? (Exhibit 8.) A.—Yes, I read it.

Q.—Do you agree with that? A.—Yes, I quite agree with it.

Q.—As a matter of fact the statement was prepared not by an individual banker but by the bankers as a party, wasn't it? A.—That statement expresses the views of the banks generally.

THE CHAIRMAN—That is what I was rather anxious to get. I understood from Mr. Ross that it was entirely his personal views, but there is a portion which is apparently more representative.

MR. HOSKIN—That statement filed with you is a statement approved by the bankers as a whole.

THE CHAIRMAN—That definitely represents their views as a whole?

MR. HOSKIN—That is correct, Mr. Williams? A.—It represents their views.

THE CHAIRMAN—All the bankers of Winnipeg, or of the whole Province? A.—I would say all of Winnipeg.

MR. COMMISSIONER EVANS—Was there a sub-section here of the banks? A.—No, the sub-section here did not do it.

THE CHAIRMAN—The bankers of Winnipeg present that as their general view? A.—Yes, that is it.

MR. HOSKIN—I don't think it is necessary to take up your time with anything more, Mr. Williams.

THE CHAIRMAN—I would like to put some questions to this witness: If a customer of standing came to him with wheat say at a dollar and said: "Take it without hedging it," what would you do? A.—Well, I would require a statement of his financial standing. If he had sufficient backing it would be all right.

Q.—Would you ask him for other collateral besides the wheat? A.—Well, it would depend on what price wheat was.

Q.—As I said, supposing wheat was a dollar and the future was neither plus nor minus? A.—Well, if he was a reputable man and he was endeavoring to carry a forty per cent margin I would say yes.

Q.—All those people who had sixty per cent of the wheat would be in business and all those between sixty and eighty-five would be out of business? A.—Yes.

Q.—In your opinion it would be between sixty and eighty-five per cent? A.—Yes, it would depend entirely on the margin.

Q.—You would think a forty per cent margin would be sufficient if there was no hedging at all? A.—It would have to depend entirely on the man. If he would undertake and we would assure ourselves he was meeting the forty per cent I would say yes.

Q.—You cannot tell us what the practice of the banks was before 1903—as to the size of the advances they made? A.—No.

Q.—Is there any banking literature showing what they made? A.—It might be in the literature. I don't know.

Q.—It is part of the case for futures, of course, that it has enabled the business to become large? A.—Yes.

Q.—You might still be in the business to the extent of sixty per cent of the price of grain? A.—Yes, we would be on a much more restricted basis than it is today.

Q.—Is there any differentiation between the rate of interest charged? A.—Yes.

Q.—Do you charge the same rate of interest to all customers? A.—No, the minimum rate is six per cent; runs between six and seven.

Q.—Do you discriminate between customers? A.—Yes.

Q.—Supposing I put a proposition up and you might say, "I don't like the look of you, not as well as Mr. Evans here. And at ninety, I will charge you an extra 1%." A.—No, I mean they are two entirely separate things. The first thing we have to be satisfied with is the margin of safety.

Q.—Are you not counting the risk twice over? A.—Well, we are not counting it too often.

Q.—You have evidently covered the whole of the risk and charged the differentiation and considered something else? A.—You have the line of safety. Some are over and some are under. If under we endeavour to pay a little more for the accommodation.

Q.—You have alternative ways? A.—Yes.

Q.—One is to charge him a little margin? And the other——? A.—It is not alternative.

Q.—Cumulative? A.—Yes.

Q.—So. as compared with Mr. Sanford Evans, you would stick me both ways? A.—No. There is either a first class risk or average risk and it may be a little on the thin side and, if it is, you would naturally want to be sure.

MR. COMMISSIONER BROWN—If you are looking for his business you would charge him 6, and if he were looking for the accommodation you would charge him 7? A.—No.

THE CHAIRMAN—I want to know whether you covered this element of extra risk only by margin. The reason is this, we often hear that if there were no futures the trade would not get financed by the bankers? A.—Yes.

Q.—I understand that they would get financed? A.—Yes.

Q.—You would be willing to do this if you got a sufficient rate of interest? A.—No, sufficient margin.

Q.—You rough it with the margin and do the fine work with the rate of interest! Well, may I put the other question to you: In "bullish" times do you find yourself advancing more money on collateral to people you are rather surprised want it? Have you a very active advance market? Suppose people come to you with the collateral? A.—We want to know where the money is going.

Q.—Would you decline it if they told you, "We are going to buy futures on a 'bull' market," where farmers are buying for a rise and they are accepting their challenge? A.—Well, if we had undoubted security. Only on a call loan basis.

Q.—On a call loan basis? A.—Call loan basis.

Q.—I want to know whether, in your experience, it is pari passu with the other activities. I want to know whether, when there is a bullish market, whether it is made with a condition locally or is it spread all over the world? A.—I would say it is spread all over the world.

Q.—Why do you say that? A.—We don't say speculative interests.

Q.—Somebody has to get it? A.—Yes.

Q.—But you don't feel it to the same extent? A.—No, we don't feel it to the same extent.

Q.—Well, you say you agree with the exhibit put in? A.—Yes.

MR. HOSKIN—Taking the example that the Chairman put to you, I understand you don't meet it in practice here? When we had the case of wheat at a dollar and you had advanced to a customer up to 40% of it, which is sixty cents, you allow him that on the wheat, and then the market drops from $1.00 to ninety cents, what will you do then? What would you require then? A.—We would call for margin.

Q.—And you would make him keep that margin of 40% all the way down? A.—Yes. More drop, more margin.

Q.—If you did not get the margin what would happen? A.—He would have to sell out.

Q.—You would sell him out?

MR. SWEATMAN—You would keep to the 40% all the way down? 40% of the market price? I am suggesting if it got down to eighty cents you would not continue to have the forty cents clear? A.—40%.

Q.—Would you still continue at 40%? A.—Well, the margin shrinks as the price goes down.

Q.—You would not advance more than thirty cents on fifty cent wheat? A.—That would be fairly safe I think.

MR. PITBLADO—As a matter of fact, sixty cents on dollar wheat in practical experience during the last year did it disappear? A.—Yes.

THE CHAIRMAN—Does that mean you would never do it again?

MR. PITBLADO—Well, I would like to ask you for the benefit of the Commission: I don't want to enter into what the Commission might think is the difference between two competitive systems of trading. But I want to say this: With one system they have had the futures markets, and the advances they had to the benefit of the trade, with the cash wheat price at a dollar—sixty cents, I would like to ask the question how the thing is taken care of?

THE CHAIRMAN—It is getting a little far afield.

MR. PITBLADO—Well, I would like the Commission themselves to look into that.

THE CHAIRMAN—If it is relevant we will.

MR. PITBLADO—I think it is relevant. You have on the one hand the system of futures market and the business being done by the merchants through that market, and you have on the other not using the futures markets but hedging the deliveries day by day. I would think it would be material for you to know what difference there was. First, as to the price the producer gets in cash for his grain for the grain delivered under the one system and the wheat or the grain delivered under the other, and, in the next place how the banking end of it was taken care of. Because it is the only illustration I have got of what took place where the futures market was used and the other where it was not used.

THE CHAIRMAN—I think you can rely on us doing that. But I am interested in the other point, to see at what point the bankers would be out of the business and whether they would be out of the business at 70% or out of it at 60%. I want to know whether they consider in dealing with that system whether it is the former. We couldn't say that the ordinary individual is the victim and that is why I am asking the question whether he thinks the banks would cease to be in the market at all and he says it is entirely a question of margin. He said that in the light of experience that it would drop and at 40% would disappear.

MR. PITBLADO—I would like to call Mr. Fisher who is the Canadian representative of the Scottish Co-operative Wholesale Society, Limited. Mr. Fisher cabled over to his people for their view-point and he is presenting a cable that he has got back.

THE CHAIRMAN—Mr. Fisher!

JOHN B. FISHER (called)

THE CHAIRMAN—What is your first name? A.—John B.

THE CHAIRMAN—And your position? A.—Canadian representative of the Scottish Co-operative Wholesale Society Limited.

MR. PITBLADO—And I believe the headquarters of your society are in the old country? A.—The Scottish Co-operative in Glasgow and the English in Liverpool.

Q.—That is you represent the headquarters of your society in Glasgow and Liverpool? And I believe you are millers, over there, of wheat? A.—Yes.

THE CHAIRMAN—You have two masters, have you? A.—Yes.

Q.—And you make a successful spread between them?

MR. PITBLADO—Where is the actual cash wheat purchased for your company in the Old Country? A.—Some of it—some Liverpool, some New York and some in Montreal.

Q.—The largest portion is purchased where? A.—At Liverpool.

Q.—That is, the large portion of your cash purchases are at Liverpool? A.—Yes.

Q.—And you have the function here for them of what? A.—To use this market for hedging purposes.

Q.—Do they hedge on this market their purchases at Liverpool of Canadian wheat? A.—I couldn't tell you that.

Q.—Do they hedge here cash wheat not bought here?

THE CHAIRMAN—They hedge here for Canadian wheat bought in Liverpool? A.—Yes.

MR. PITBLADO—And you don't know whether they hedge here for wheat bought on other markets? A.—I couldn't tell you that.

Q.—Now, you are hedging for amounts of how much, approximately in the year? A.—It depends on the year; might run ten or fifteen millions a year.

THE CHAIRMAN—What is this ten or fifteen million? A.—Bushels.

THE CHAIRMAN—And do you put in the hedging orders for that and cable all the advices you get? A.—Yes, to Liverpool.

Q.—But you are not responsible for the purchaser of the wheat? A.—No.

MR PITBLADO—Now, you cabled over, Mr. Fisher, and you received a reply. Will you read the cable decoded? A.—I cabled our Mr. A. H. Hobley, "Co-op. Wholesale Society, Liverpool, England: Please cable statement necessity Winnipeg futures market in your purchasing operations and what is effect of same on prices paid to Canadian producers for presentation to Royal Commission sitting Winnipeg, Monday, Chairmanship Sir Josiah Stamp.", and I received the following cable this morning: "One, grain futures market provides farmer daily value of his wheat. Two, Canadian wheat mainly for export Winnipeg market must reflect world conditions. Three. On adverse reports specu-

lators push prices above value and enable farmers or Pool to sell at good prices and millers to continue buying Canadian wheat and hedge their purchases in Winnipeg thus giving buyer insurance of value. Four. Without free futures market great difficulty sellers and buyers come together in price. Five. All banks finance on insurance of value provided by option certificates resulting in free movement of wheat. Six. Consider present difficulties due holding policy by Canada allowing Russia and Argentine to take importing countries' trade."

THE CHAIRMAN—Would you read that reply you received again, slowly this time. A.—"One. Grain futures market provides farmer daily value of his wheat. Two. Canadian wheat mainly for export Winnipeg market must reflect world conditions."

THE CHAIRMAN—It is not clear whether it is to advantage of the Canadian producer? A.—It just makes the statement there that grain futures market provides farmer daily value of his wheat. "Three. On adverse reports speculators push prices above value and enable farmers or Pool to sell at good prices and millers to continue buying Canadian wheat and hedge their purchases in Winnipeg thus giving buyer insurance of value."

COMMISSIONER BROWN—That does not deal with the reverse of that at all? A.—No sir.

THE CHAIRMAN—I don't think we can cross-examine the witness on this cable.

COMMISSIONER BROWN—No, I just want to emphasize this point.—A—"Four, without free futures market great difficulty sellers and buyers come together in price. Five.—All Banks finance on insurance of value provided by option certificates resulting in free movement of wheat"

THE CHAIRMAN—I suppose he means by that a wider competitive market? A.—Yes. "Six. Consider present difficulties due to holding policy by Canada allowing Russia and Argentine to take importing countries trade."

THE CHAIRMAN—Will you put that in for the Commission as an Exhibit?

MR. PITBADO—I was going to file that.

Copy Cable Sent by Mr. John B. Fisher, SCWS., Winnipeg, to Mr. A. H. Hobley, CWS., Wheat Buyer, Liverpool. Dated 11th April, 1931.

"If agreeable please cable statement necessity of Winnipeg futures market in your purchasing operations and what is effect of same on prices to Canadian producers, stop. This is for presentation to Royal Commission sitting Winnipeg, Monday, chairmanship, Sir Josiah Stamp."

Reply Cable from Mr. A. H. Hobley, Liverpool, to Mr. John B. Fisher, Winnipeg, Dated 13th April, 1931.

ONE—Grain futures market provides farmer daily value of his wheat.

TWO—Canadian wheat mainly for export Winnipeg market must reflect world conditions.

THREE—On adverse reports speculators push prices above value and enable farmers or Pool to sell at good prices and millers to continue buying Canadian wheat and hedge their purchases in Winnipeg, thus giving buyer insurance of value.

FOUR—Without free futures market great difficulty sellers and buyers come together in price.

FIVE—All banks finance on insurance of value provided by option certificates resulting in free movement of wheat.

SIX—Consider present difficulties due holding policy by Canada allowing Russia and Argentine to take importing countries trade.

MR. PITBLADO—Mr. Fisher brought with him a telegram which came to him in code. He has decoded it. A.—It is just a code of every ten letters.

Q.—If it is a code of ten letters you had better give the translated one.

THE CHAIRMAN—We will accept the translation.

By Mr. Sweatman:

Q.—You do all your hedging in Winnipeg? A.—Yes. Of course, we do some in Minneapolis and Chicago.

Q.—Why do you in Winnipeg instead of Liverpool? A.—Because Winnipeg is usually above Liverpool.

By the Chairman:

Q.—Does that mean you make a profit on the hedging? A.—No, the statement is wrong. I think what I meant to say was the Winnipeg market is a much wider market to trade on. Liverpool is a narrower market than Winnipeg.

Q.—You mean you can get your hedges more successfully and readily? A.—Yes.

THE CHAIRMAN—Any other questions?

MR. HOSKIN—No, thank you.

R. T. EVANS (called)

Examined by Mr. Pitblado:

Q.—You are connected with what company? A.—The British America Elevator Company.

Q.—Your position being what? A.—Vice president and manager.

Q.—What lines of business is your company in? A.—At the present time only the country line, and commission merchant. Country elevators and commission merchants.

Q.—So that the British America Elevator Company itself does not operate terminals, nor is it in the export business? A.—Not at the present time.

Q.—How many country elevators have you? A.—Around one hundred and thirty-five.

Q.—In what provinces? A.—Manitoba, Saskatchewan and Alberta.

Q.—And at your country elevators, you both buy wheat, and also receive it for storage? A.—Both buy, and receive it.

Q.—And the grain is all forwarded to Fort William or Port Arthur, or do you forward any to Vancouver? A. Yes.

Q.—Some to Vancouver, that is you reach far enough west so that some of your grain goes to Vancouver? A.—Yes.

Q.—It either comes to Fort William and Port Arthur and some goes to Vancouver? A.—Yes, small amounts scattered around throughout mills in the country.

Q.—That is, there is some grain sold to local mills? A.—Yes.

Q.—But even that grain, as I understand it, its price is basis Fort William? A.—Yes, basis Fort William or Vancouver.

Q.—Or Vancouver, as the case may be. In so far as the purchase of grain is concerned at your country points evidence has been given, and I don't want to go over it in detail, by two of these companies. Do you follow the same practice of hedging? A.—Yes, we hedge all our purchases.

Q.—You hedge all your purchases in what market? A.—In Winnipeg. As a rule once in a while, very rarely, we in the past have hedged in other markets, but this year and last year, and the past few years, practically in Winnipeg.

Q.—Do you do that daily as the receipts come? A.—Daily, complementary sales against the purchases.

By Mr. Pitblado:

Q.—When you say it is complementary do I understand you to mean——? A.—Within the closest possible variation.

Q.—Within the closest possible variation you hedge all purchases? A.—Yes.

Q.—With purchases of both off-grade grain, and all regular grades? A.—There have been rare exceptions where, in connection with low-grade grain we have considered it to be a less speculation to merchandise that than to hedge it. That, however, is rare.

By the Chairman:

Q.—What do you mean by merchandising instead of hedging? A.—In some crop years, in 6 wheat, and feed wheat, feed wheat values are protected more on the question of feed values than on milling values of higher grades of wheat. We consequently consider it a less speculation to merchandise feed wheat and 6 wheat than to hedge it.

By Mr. Commissioner Evans:

Q.—That is, you carry it with your own capital? A.—Absolutely.

By Mr. Pitblado:

Q.—And sell that where? A.—Wherever we can. It usually goes through the usual channels of trade.

By the Chairman:

Q.—You depart from the hedging rule because you think for this particular grade of wheat there is a good cash market? A.—Yes.

By Mr. Pitblado:

Q.—And you take the risk? A.—Yes.

Q.—Is that a common or a rare occurrence? A.—Rare occurrence.

Q.—During the last year were you doing that? A.—No.

Q.—The last year and a half or two years? A.—No.

Q.—Do you, as Mr. Hayles said he did, send out every day to your country elevators the prices? A.—That price goes out through a central organization, centralized by radio.

Q.—So your elevators in the country receive by radio daily, twice a day, the cash prices here? A.—Yes.

Q.—Are your elevator operators, provided there is room in the elevator, always ready to buy grain offered by the producer? A.—Yes.

By Mr. Commissioner Evans:

Q.—And pay full spot cash? A.—Always, yes.

By Mr. Pitblado:

Q.—Then you hedge here? A.—Yes.

Q.—Mr. Hayles I think spoke of what he called the spread on the cash price, that is what is known as the street price, Mr. Evans, and the Fort William price. There is a spread? A.—Exactly.

Q.—Which covers what? A.—The necessary spread covers freight, all necessary charges such as inspection and weighing, and all the various carrying costs, plus a reasonable margin of profit, which is called the gross margin.

By the Chairman:

Q.—You use the word "reasonable"; they all use that word. Is that conventional? A.—I wouldn't say it is exactly conventional, because there are variations in it. It has even been said it was an improper spread, and sometimes it is a narrow spread, and we say reasonable, from the standpoint because it is often, in so far as the actual price is concerned, very little under the actual cost of handling the business physically through the elevators.

Q.—It is not a definite calculation that you add and get, or don't do the business, it is a residual, it is a balance? A.—Exactly.

MR. PITBLADO—I am not going through that, but the Turgeon Commission made an actual investigation of the profits that were made by these grain companies in that line of business, and the result of it is set out in the report.

THE CHAIRMAN—Yes, in Exhibit 1.

MR. PITBLADO—Again, we are going pretty far afield. I can tell you, Mr. Evans can tell you what the spread is today. You could not tell whether the spread was reasonable or not without going into a great many facts which were gone into before that Commission.

THE CHAIRMAN—I was just asking him as to whether he had a particular figure to represent a particular profit, or whether he got by and large a residual a figure which he regarded as a balance. A.—It is variable.

Q.—In which you are more the passive than the active agent? A.—Yes.

By Mr. Pitblado:

Q.—On which is that fixed? A.—Fixed usually on the closing cash prices on the Winnipeg Exchange. That is variable because it depends on conditions at different times of the year, supply and demand. It all goes back to the question of supply and demand. If the particular demand is greater at a particular time for cash wheat of some particular grade than the supply you may result in a premium over the next nearby future for the cash wheat in that particular position. You may have a variable price as between Vancouver and Fort William.

Q.—And it is all those various factors which have the influence? A.—Yes, on that price.

By the Chairman:

Q.—In this spread or difference between prices you have a number of fixed or regular charges? A.—Yes.

Q.—But there is one factor, your reasonable profit, which is a residual or resultant, rather than a fixed thing? A.—Yes.

By Mr. Pitblado:

Q.—But determined by yourselves? A.—Determined by ourselves.

Q.—According to the circumstances and conditions at the time? A.—Exactly.

Q.—Coming to the point of hedgiing, Mr. Evans, let me ask you if you will tell me the advantage that you consider that you have from being able to hedge your cash purchases? A.—It enables us to handle a larger volume of grain at less capital, but the particular thing that is effective to us is that it enables us to avoid speculation by insurance against price fluctuation.

Q.—How, if any, is there any reflection to the producer? A.—Very material I would say.

Q.—And what? A.—I think in order to determine the reflection back to the producer you must start again at the world's value of the grain, and there is each faction of business in between the producer and the delivery to the ultimate consumer, and that everyone in the transition from one part to the other has to carry that grain a certain portion of the time, and everyone in that course assumes a particular risk, not only the buyer in the country, but the shipper, or exporter, the miller, depending upon the length of time they carry that cash wheat, and I think everyone would naturally expect a larger margin of profit in the handling of that cash wheat in putting it on the market, if they in turn were not able to have the protection of the hedge, consequently the exporter, shipper, the miller, and the cash prices are quoted to the elevator owners on the exchange, and I think every one of these variable factors would be reflected back to the producer.

Q.—And when you say reflected back to the producer, in what way? A.—It would give him a lesser value in his price than the combination of all the probable insurance factors that each one would demand in the way of a profit on account of the price risk.

Q.—Instead of putting it in that language, do you think the producer received more or less for his grain by reason of it? A.—He received more.

Q.—Is that the result of your experience? A.—Yes.

Q.—Running over what length of time? A.—I have been twenty-five years in Canada in the elevator business.

Q.—Is that your considered opinion, after being in this business along those lines? A.—Absolutely.

Q.—I see that Mr. Hayles in his statement says, Mr. Evans, that the maintenance of a ready cash market at the country points is absolutely dependent on the immediate availability of the futures market in which offsetting sales can be easily made? A.—I think there is no question about that. There may be days without a hedge when, through lack of funds we wouldn't have been able to have a continuous market, and we would have to be in and out of the market. You may overstep the amount that we felt we want to take a speculative risk on it. I don't think you could have a continuous market.

Q.—You have been mentioning, Mr. Evans, what you call the world's price, and you brought in, as I understood your statement a little while ago, you bring the thing back from the world price, tracing it back to the producer. What do you mean by the world price? A.—The price based on supply and demand the world over.

Q.—Where is that price arrived at? A.—Commonly attributed to Liverpool.

Q.—That is the Liverpool market is commonly considered the market closest to the consumer of the grain that is exported from Canada? A.—Yes.

Q.—And that is what you are speaking of? A.—That is what I am speaking of.

Q.—And there is a very large amount of our grain that goes for export? A.—A very large amount.

MR. PITBLADO—I don't know whether the Commission wants any figures on that. We had them the other day somewhere, and they can be produced if you want them, I mean the quantity that goes out for export.

THE CHAIRMAN—I think we have got those figures; we have a general knowledge.

MR. PITBLADO—I don't think I need take Mr. Evans over the hedging and switching except to ask him——

By Mr. Pitblado:

Q.—Is the practice of switching your hedges told of by Mr. Hayles, also common with your company? A.—Yes, I will go further than Mr. Hayles went in that respect. I would say very often we might be termed "spreaders" in the market as between various months, starting in the beginning of the year we may hedge on the nearby futures, which is the future which gives the closest reflection to the cash price, which is used as the basis on which to determine the country price, and as we pass along we may switch from one month to the next succeeding month, and so on down, but in the meantime those months may vary and get out of line, and we might switch back again, and we might do that on occasions at different times. As the result, that we might possibly hedge a considerable portion of our stuff, what might be termed six or seven times.

Q.—That is there may be operations that would be reflected in the Clearing House? A.—Absolutely.

Q.—Six or seven times on the same grain you were carrying? A.—On the same grain.

MR. PITBLADO—I don't know whether the Commission understands what I might call the technical language of the grain trade, when he speaks about line. I won't bother with it if the Commission understands what he means by out of line, one month is out of line.

THE CHAIRMAN—No, I don't think you need give any time to that.

MR. PITBLADO—There is certain of this language that is technical and I won't ask any explanation if the Board understands that.

THE CHAIRMAN—Yes, I know.

By Mr. Pitblado:

Q.—I am going to also ask you this, that when you have been selling the cash grain which you have hedged, does your future contract, your sale contract, is that taken over or exchanged, I think the term was used? A.—That may be in one or two ways.

Q.—Yes. A.—You may either deliver the cash through the Clearing House in fulfillment of your short future, or you may make a complementary exchange of your cash wheat for the future, depending of course upon the grade you are selling, and on that particular basis of the market differences.

Q.—And which is the common way, Mr. Evans? A.—The complementary exchange.

Q.—So what Mr. Hayles, and I think also our first witness, Mr. Smith, spoke about, is also common with your company? A.—Yes.

Q.—Are those essential elements in connection with the trade in cash grain as it is at present done on the market here? A.—Oh, absolutely. In fact, they are essential to the facilitating of rapid handling.

Q.—You get banking facilities for your company? A.—Yes.

Q.—Is it understood with your bank that you are to keep your grain hedged? A.—Generally understood, yes.

Q.—Generally understood, that is the condition of keeping your grain hedged? A.—Yes.

Q.—Has that been so all the time you have been doing business? A.—Within very small limitations that we carry at our own risk such as I explained before, with low grade wheat. The banks are perfectly familiar with our position at all times.

Q.—The next thing I was going to ask you about and I think perhaps we forgot to ask the bank men, do the banks get statements from you continually as to how you stand? A.—Semi-monthly.

Q.—Is that the custom not only with your own bank? A.—I might say from general knowledge it is customary.

Q.—Every two weeks you have to give a statement to the bank showing how you stand? A.—Yes, exactly.

MR. PITBLADO—Mr. Chairman, I was only going to call one other man who deals in country elevators, so I would like to find out from Mr. Evans—I could find out from them all—if this practice that he told of, and Mr. Hayles told of is the common practice of all the elevators? He can tell that, because I think he knows it.

By Mr. Pitblado:

Q.—Is that the common practice? A.—Yes, it is common practice, as much as it is possible for anyone to know anything about some one else's business.

MR. PITBLADO—Yes. I might say, Mr. Chairman, I could call every one of them here, but it would only reiterate what was said. I hope to call tomorrow one more along these lines, that is Mr. James A. Richardson, and that is why I was asking Mr. Evans a point that he could only know really from hearsay, whether that was generally done.

By Mr. Pitblado:

Q.—I was just going to come now to your market. You get this grain, you have got it hedged, it is in your country elevators, and it goes down to Fort William or Port Arthur? A.—Yes.

Q.—And it is still yours when it reaches there? A.—Yes.

Q.—Then reaching there, to whom do you dispose of it? Where is your market? A.—Our market is on the Winnipeg market, and it is to millers, exporters, shippers; those are the three factors. It might be the terminal elevator interests at certain times of the year who were buying to maintain full storage plants, and carrying charges. Those four markets are practically the limit of the markets.

By Mr. Commissioner Evans:

Q.—You use the expression shippers and exporters. Would I be right in saying that the word "shipper" is used to describe those who move grain across to the other side of the Lakes and sell there? A.—Yes, and cease there.

By Mr. Pitblado:

Q.—That is you have some people who, as part of the business, take grain from Fort William, carry it across to the other side of the Lakes, or to Montreal? A.—Yes, and their operation ceases there.

Q.—That is what you mean by shipper? A.—Yes.

Q.—Some of these men take it off your hands there? A.—Yes.

Q.—Do they all use the futures market as we have been speaking of it in connection with hedging? A.—Well, I couldn't answer and say everyone uses it, but I assume they do. The general assumption is that they do.

Q.—As far as you know, they do? A.—As far as I know they do.

Q.—Do you know of any class of the trade, Mr. Evans, who are handling cash grain, cash wheat, any line in the trade who do not make use of the futures? A.—I have no knowledge of any.

Q.—You have no knowledge of any that do not use it? A.—I have no knowledge of any that do not use it.

Q.—In so far as your knowledge goes it is general, then? A.—General.

MR. PITBLADO—I think that is all.

By Mr. Commissioner Brown:

Q.—Mr. Evans, we have had some evidence which would indicate that the general public throughout the prairie provinces are those who hold the bag, or support the structure of hedging. Now, this last year the general public has been scared out of the market, that is, they are not buying, not speculating throughout these prairie provinces. Does that fact, the fact that that profit is gone, affect the price? A.—I don't think it does. I don't think it affects the price. As far as that class of business is concerned we don't do it, and we do not carry a speculative trade on our books for anyone.

Q.—I know, but you hedge? A.—We hedge, yes.

Q.—But I say, the prop of the hedging business, according to certain evidence we have had here today, the prop of the hedging business is the general public throughout the prairie provinces? A.—I think that question is academic as to whether the question of hedging at any particular time or moment has an effect on the price. I don't think it has, because I think the price is always protected on the proper supply and demand of the world.

By Mr. Commissioner Brown:

As to whether the question of hedging at any particular time has an effect on price. A.—I don't think it has, because I think the price is always protected on the question of the supply and demand of the world.

Q.—We have also had evidence to show that the world's market is reflected by the Winnipeg prices, they are so co-related? A.—The world market may be; I don't know of any instance in which it is reflected particularly by the Winnipeg prices.

Q.—I was wondering whether the very low price, almost depressing price is in some way related to the fact that the public has stayed out of this speculating system that you say is the start of your whole sysem of marketing. A.—Well, I don't think that that is related to the question of the system of marketing wheat any more than any other product; I think it is a general world condition. I think it is a situation dependent on the ability to pay and the ability to buy, and on the other hand on account of the general impression that there are people who will not buy who can; I think it is reflected in all lines.

Q.—That has to be admitted to a certain extent? A.—Yes.

By the Chairman:

I understood you to say that you consider that the price is settled at that point by supply and demand? A.—Yes, sir.

Q.—In the whole chain? A.—No, I didn't say that, because I think it is affected by inter-relation conditions which vary and change from time to time. I think that is what creates conditions and fluctuations in the market.

Q.—But supposing there is no other fluctuation than that of quantity of wheat in your harvest, would you say that the supply and demand price at the point of consumption is the result of adjustment of that quantity? A.—No, I wouldn't think that, because I think it is a much deeper subject than that.

Q.—I was going to ask you whether costs of production were not also a factor. A.—Yes.

Q.—What would you suppose would happen to the price at the point of consumption if some one of the costs suddenly by some miracle became higher, freight for example; would you expect the price to fall. A.—I think that is a question on which economists have never agreed as to who pays the freight. I have never heard that question satisfactorily answered.

Q.—There is the question. Suppose that the freight or some other factor is higher, would you expect the price to remain the same, all other factors being the same. A.—My present view is the consumer pays the freight; if the freight should reduce the consumer still pays it.

Q.—Where the freight goes up it would not affect the price at the point of consumption? A.—It might to a degree—I wouldn't attempt to answer that question having seen and heard so many arguments on it I wouldn't attempt to answer it.

MR. COMMISSIONER EVANS—What point would you take?

THE CHAIRMAN—I am taking the final point of consumption by the consumer of flour, or the miller in England.

Q.—Let us suppose that some element of cost all the way between the market and the consumer is affected, you wouldn't suggest that the price of wheat would remain the same? A.—No, I wouldn't suggest that it remain the same, but whether or not that would be reflected entirely in Liverpool or reflected back to the prairies of this country I won't attempt to say, because you have the speculative elements as well as other elements entering into the situation at any given time, and still it would depend on the question of supply and demand.

Q.—You wouldn't expect the price to fall by the whole of the change in that particular cost? A.—No, I wouldn't.

Q.—But the benefit of that change in cost is getting spread over? A.—I think it would spread all over.

Q.—You take the view, as I understand it that the system of futures, an equated system of insurance, has the effect of giving the farmer in the long run a better price? A.—Yes.

Q.—It also gives all the other elements in the chain of production a rather better price, but as they have to pay more as well as get more it doesn't follow that their margin is any bigger. A.—It doesn't change their margin.

Q.—It is simply that part of the extra price that they pay to the producer is reflected in the price they get? A.—Yes.

Q.—But by the time you get down to the consumer there is no change in the price? A.—No.

Q.—The effect of this method of insurance is spread over the larger chain? A.—Over all the factors of distribution from the producer to the consumer.

Q.—Doesn't that really mean then that if farmers carried their risks of fluctuation in price, if it fell upon producers, middlemen and all the way to Liverpool that the remuneration each one would expect for carrying that risk is larger than the existing remuneration paid to the speculator. Would you think the speculator enters into that?

A.—I think that is an item; the same as freight or any other charge.

Q.—Is there any difference in the total cost of it when it is handled in the present system of futures or handled haphazard by each individual handling his own? A.—It would cost more each individual carrying his own risk.

Q.—And that is where this difference comes in when it is done collectively instead of being carried by individuals? A.—The risk is spread over more people, but that doesn't minimize or increase the risk.

Q.—Doesn't it diminish the reward expected by anybody? A.—It diminishes the reward which they may expect.

Q.—It dimishes the reward on which this trading is done by and large? A.—Yes.

Q.—And that is where you get this advantage that can be partly handed on to the farmer by a futures market. If you can't get it in that way it is very difficult to see where it can come in. A.—It is the only way you can get it.

MR. PITBLADO—He doesn't do any speculation, as I understand. He only handles farmers grain on commission.

WITNESS—I might explain. We don't take speculation trades. Now one must discern between speculation and speculative trading by another on the part of the producer. We will not accept from a producer an open order for buying or selling grain, unless there is a complementary exchange of cash grain, consequently we could only take a position on the one side of the market for a producer in disposing of his cash grain and he wants a complementary exchange of futures; so we will sell cash grain and take back futures.

Q.—You are only dealing with those who are hedging? A.—Yes.

Q.—If an outsider like myself came into your office, you would refer me to somebody else? A.—We wouldn't take a trade from you.

MR. PITBLADO—There are farmers who consign their grain to you on commission, Mr. Evans? A.—Yes.

MR. COMMISSIONER EVANS—Or cash grain.

Q.—I am speaking of cash grain, from the producer, and he decides that he would sell his grain, but he thinks grain is going to go higher and he would like to go into the futures market and carry grain on the futures market rather than the cash grain. You have men of that type? A.—Yes.

Q.—And that is the only kind of trading that you do on commission? That is the only thing.

MR. PITBLADO—That is, a farmer, Mr. Chairman, then instead of carrying cash grain—

THE CHAIRMAN—Using the word in a slightly different sense.

Q.—That is not quite hedging, but in effect it is carrying his grain, but he is getting the benefit of the cash in the meantime. I wanted to ask you, Mr. Evans, you were talking about the world market, and Chief Justice Brown was asking you about the Winnipeg market influencing the world market, which in your opinion is it? A.—I think when it is a subject to influence at all, the world market influences the Winnipeg market. We have times which by other outside influences the Winnipeg market may be at a higher level than the Liverpool market.

Q.—If it gets to be a lower level than the Winnipeg market what happens? A.—I have never known it to be, that is outside of an eighth or a sixteenth or a quarter or something that takes time in transportation of information.

Q.—You have never known the Winnipeg market to be lower than the world market? A.—Beyond the slightest fluctuation that might be due to transportation of information, the time necessary for transportation of information.

Q.—So far as the Winnipeg market is concerned, generally speaking, we can say it is not lower than the world market? A.—No.

Q.—But there are times when you said it is out of line? A.—Higher.

Q.—And what would cause that? A.—Well there are variable causes; it may be due to matters of opinion, speculators thought the market was going higher; very largely that.

THE CHAIRMAN—Great confidence in their position? A.—Confidence in their views as to the future trend of values.

MR. PITBLADO—I think the Commission know it well enough.

By Mr. Pitblado:

Q.—Do weather conditions play a part in this price of grain? A.—Absolutely, that is one of the variable conditions.

Q.—Hail? A.—They are even effected by high winds in Saskatchewan.

Q.—Exactly; you had a dust storm all over the West here. And do those weather conditions play some part? They do, absolutely.

Q.—And rain when you shouldn't have rain? A.—And grasshoppers.

Q.—And hot weather when you expect rain? A.—Yes, and dry weather.

Q.—Those are all reflected in the market? A.—Yes, all reflected in the market.

Q.—After all, those things right themselves again when the final result comes? A.—Yes.

Q.—And as I understand it, what you say is, the Winnipeg market rights itself along with the world market in Liverpool? A.—Yes.

Q.—And this market here is dependent solely upon our western grain, is it not? A.—The western grain is the foundation of business.

Q.—Whereas the Liverpool market, as you know, receives grain from all parts of the world? A.—All over.

By Mr. Commissioner Evans:

Q.—You made some reference to a premium on your spot grain at times? A.—Yes.

Q.—Perhaps the Commission would like to hear something about those spot premiums. You sometimes sell spot wheat at quite a considerable premium over the level of the current future, or nearby future? A.—Yes. Well that is due to a situation which may be affected by any one of a number of causes: it might be congestion in the east at the ocean ports; it might be congestion at the Bay ports; it may be a lack of some particular grade to fill space provided for that shipment at Port Arthur or Fort William, a local demand, local condition.

Q.—How great do those premiums sometimes become? A.—I have known one year they went up to 28 or 30 cents, but that of course is unusual and uncommon; generally around two or three or four cents.

Q.—Have you ever known the spot price to fall below the level of the future if we take the carrying charges? A.—Possibly to the extent of an eighth of a cent.

Q.—Except to an eighth of a cent the cash price cannot fall below the future? A.—No.

Q.—Never does? A.—No.

Q.—But in case of local shortage the cash trades may take advantage of any rise? A.—Yes.

Q.—Does that mean that the futures doesn't necessarily limit the maximum price that may be received, but it determines the minimum price? A.—It determines the minimum price, it does not affect the maximum.

Q.—You are not engaged in any way in the speculative side beyond the hedging in futures? A.—Only to the extent that we are obliged to be. We have certain speculations that we are connected with and applicable to by virtue of off-grade grains and so on.

Q.—It is connected with the grain that you yourself handle? A.—Yes.

Q.—Have you any evidence as to where the initiative of the bull market starts? A.—I do not think they all start at the same place. It might start here in Winnipeg, Liverpool, Chicago or Minneapolis, Buenos Aires.

Q.—Are they small people or big people who set the example? A.—I think it is largely a few, brought about by a change in conditions in some part of the world. Where that change is it is noticeable that that is where it actually starts. It is not always due to actual buying. It starts on the basis of dissemination of information and it might be coincident all over. Everyone may start, you cannot determine where it might start.

Q—You have not got the view that speculation of that kind systematically puts money into the pockets of the big speculators at the expense of the small speculator? A.—I do not think it does.

Q.—You think the small people make just as much as the big? A.—I think they make more.

MR. PITBLADO—There is one question I would like to ask, that is the price paid by you for the grain you bought in the 1929-30 crop? Have you that information, or can you get it? A.—We have that information for some years. Of the 1929-30 crop, I have in mind that for No. 2 Northern wheat we paid $1.15⅝ or $1.15¾. I may be out one-eighth of a cent. That is for No. 2 Northern $1.15¾ I am quite sure is correct. That was paid to the grower at country elevator points and is awarded the average of similar freight rate points. It is awarded the average determined at each individual freight rate point and then the general average of all points.

Q.—That is country point prices? A.—Yes.

Q.—The country point price you start on is composed in that way? A.—Yes.

Q.—What is the spread between No. 2 and No. 1? A.—Approximately three cents.

Q.—Approximately three cents was the spread? A.—Yes.

MR. COMMISSIONER EVANS—Would that take in all the wheat you bought? A.—All the No. 2 Northern we bought. We took No. 2 Northern because the largest proportion of our crop was No. 2 Northern.

Q.—And some you carried over? A.—Oh, yes. That is what we paid the producer.

MR. PITBLADO—A large proportion of that wheat which you bought at that price, did you receive as much as that price for it when you sold, as the cash price? A.—Well, naturally with the decline in values, we did not.

Q.—So you really paid this price and sold a very large proportion on a declining market at a less value? A.—We would sell some of it. We still have some of it on hand. We have large quantities on hand.

Q.—What was the closing price of No. 2 Northern today? A.—Fifty-one to fifty-two.

Q.—At country points? A.—At Fort William.

Q.—And yet you have not lost by that, by reason of your hedging? A.—Yes.

Q.—And the farmers whose wheat you bought got that money? A.—Yes.

Q.—So he certainly did not lose by it? A.—No.

Q.—And you have not lost by it? A.—We have not lost by it.

THE CHAIRMAN—It is this unknown speculator? A.—I imagine so, whoever had the opinion that prices were going higher, were going to step up.

MR. COMMISSIONER EVANS—Isn't it the profit that the miller in Europe has foregone because he did not wait for the market? A.—Surely, the speculator was the man who was anticipating his requirements and he may have been a legitimate dealer.

Q.—Did not the profit which did not accrue to the merchant in Europe materially account for the loss and it would not all fall on the speculator? A.—No, it would not all fall on the speculator.

MR. PITBLADO—I want to keep within the limits of the question before the Commission and I am trying to keep to the effect on the producer. I am not concerned very much who carried the bag and lost the money. So far as the producers are concerned they benefitted by this futures market and the people who bought that grain did not themselves lose by it. It enabled them to do business. If the Commission would like, I can call operators of all the country elevators operating in Western Canada, but the statement that Mr. Evans gave is the same with them all.

THE CHAIRMAN—I think we will take that as representative of them all.

MR. PITBLADO—As to the prices over the radio?

WITNESS—It was all explained at the Turgeon Commission except that they are transmitted by radio instead of by telegraph.

MR. PITBLADO—I would like to recall Mr. A. P. White on the question of futures brokerage. Mr. White has prepared a statement of his own and if you will permit him he will read that.

(MR. A. P. WHITE, Recalled.)

By Mr. Pitblado:

Q.—You are a member of the firm of A. P. White & Company? A.—Yes.

Q.—And you have been in the brokerage business for how long? A.—I have been in the grain business for thirty-one years and practically all that time engaged in futures brokerage business.

THE CHAIRMAN—All but four years you have been in this business? A.—I entered the grain trade thirty-one years ago and practically all that time I have been in the futures business.

Q.—The futures market has been in existence since 1903? A.—Yes.

Q.—So you had the first three or four years without this particular business? A.—I was in the futures brokerage business before they had one in Winnipeg. I was an office boy with a firm that was doing business in Minneapolis and Chicago. I was born in Winnipeg.

MR. PITBLADO—Perhaps there has been the idea that before 1903 there was no hedging at all. That is not correct. There was hedging in Chicago and Minneapolis. Our Winnipeg grain merchants were hedging at those points.

Q.—You started in thirty-one years ago as an office boy in a firm in Winnipeg before the futures market was started here? A.—Yes, the firm was Watson & Company.

Q.—They were grain merchants? A.—Grain, stock and bond brokers with private wires to Minneapolis and Chicago. As I remember our grain merchants, country elevator and others could through that facility hedge in Minneapolis and Chicago.

Q.—At which time there were futures markets there? A.—We did handle a considerable business for the local dealers in the way of hedging on the Minneapolis and Chicago markets.

Q.—I am not going into that to any extent, but it was done? A.—Yes.

Q.—Practically all your business life has been in the brokerage business? A.—Yes.

Q.—You have a statement that you have prepared and which you wish to read? A.—I have prepared a statement of my own activities in the grain business and a short one as to my own views in regard to speculation and with your permission I will read them both.

THE CHAIRMAN—We will call the first Exhibit 10. Will you read it please.

WITNESS (Reading)—I have been actively engaged in the grain business for thirty-one years, during the greater part of which time I have been manager of, or partner in a firm carrying on business as grain, stock and bond brokers, whose business is largely confined to the handling of speculative trades for clients. For many years I personally filled on the Winnipeg Grain Exchange Trading Floor, the buying and selling orders which came to our firm. And if I do say it myself, I was classed as one of the best traders in the pit. I am telling you this not egotistically but because it occurs to me that if an easy way to wealth is to speculate in grain, as many people appear to believe, I should have amassed riches for myself and for my clients, and also learned of others having done so. I am not speculatively inclined but what little trading I have done for my own account stands me a loss, and I cannot recollect that anyone trading with my firm has ever made any large amount of money and kept it. Nor do I know of any speculative operator on the Winnipeg Grain Exchange who has gained materially. In fact, I believe that speculators as a whole put more money into the grain market than they take out, and by so doing enable the producer to secure a higher price for his grain.

My office is located in the Grain Exchange Building in Winnipeg. It is open to the public, and for their information futures grain quotations of Winnipge, Chicago, Minneapolis, Liverpool and Buenos Aires are boarded. All statistical information pertaining

to the world situation of grain, weather reports, crop reports, and any other information of interest to grain traders are received and made available to anyone interested. As well as grain quotations, a full line of New York, Montreal and Toronto stock quotations are boarded, and information pertaining to stocks and bonds is supplied.

My firm has always maintained connections with firms gathering business from points outside of Winnipeg, from offices located throughout Canada and the United States. In connection with this end of my business, I have no direct knowledge whether the contracts made are speculative or hedging, but I believe the large percentage to be speculative. I also do a considerable volume of what is termed local business; that is, business which originates in Winnipeg. Part of this business, I believe, is hedging, although when a local man or firm instructs me to buy or sell grain, it is not my affair—nor do I always know—if it is speculative or hedging.

However, I believe the large part of the business I do is speculative, and therefore my earnings and expenses are secured almost entirely from the commissions charged for handling speculative business. Practically nothing is taken from either the producer or the consumer by my office, or from offices of a similar kind maintained by futures brokers.

My records show, and I believe the records of practically all other brokers operating similar offices to mine will show, that practically at all times our open contracts to take delivery of grain are greatly in excess of our contracts to make delivery. In other words, our clients' net position is invariably long. In fact, my records show that on every day during the year 1929 we were long many million bushels of wheat. During the first six months of 1930 we continued "long" every day a large quantity of wheat, the quantity diminishing during June, until July 16th, we were "short" a very small quantity, again "long" on July 17th and 18th, "short" on July 19th a small quantity, "long" again on July 21st, and have been long ever since, the quantity gradually increasing until today we are long a considerable quantity of wheat. In analyzing these figures, they show that during a period of two years, 3 months and 13 days, or a total of 833 days, the net position of my clients' open contracts on 831 days were long. I am positive that the large majority of speculators in grain are buyers and therefore their activities in the market are of immense value to the producer, in that they absorb the hedges placed by dealers against grain bought from the farmer.

During the many years I have been actively connected with the futures brokerage business I cannot recall what to my mind would be an attempt to unduly depress prices. Brokers as a whole prefer advancing prices, or what is called a bull market, as they invariably do much more business on an upward market than on a declining one.

MR. PITBLADO—The second part which you are now going to read represents your own views on what I might call speculation? A.—Yes. (Reading.)

A properly organized futures market can and does minimize the inevitable trading risk by providing machinery for the transfer and spread of the risk among a body of professional risk bearers or speculators.

Practically every student of grain marketing admits the value of a hedging market. Would it be possible to provide hedging facilities without speculation? My answer is "no." If futures market transactions were restricted only to that volume of trading which resulted from hedging, the market would become very narrow and lose that flexibility which is so essential at all times to a hedging service. Futures trading involves a much broader concept. In order to fully utilize hedging facilities there must be present a very large amount of in and out speculative trading to give the producer, miller or dealer immediate hedging service. Elimination of the speculator would result in a widening of trade margins and the tobogganing of prices when harvested crops began to move. Speculation is inevitable. Speculative risks may be transferred from one group to another but cannot be eliminated, so why not lift the speculative risk from the shoulders of the producer, miller and dealer and allow them to function in the marketing process with less hazard from price changes, allowing them by passing the risk on to the speculator to preserve narrower trade margins.

The main objection to the speculator in grain seems to be that he takes something away from the producer or adds something to the cost of the consumer. What becomes of the money made or lost in speculation? May I suggest that it was largely a revolving fund, a revolving insurance fund to cover existing risks. One speculator may have a larger share of that fund today than another, and so on. Many who made large amounts during the war on upturn in prices as a general thing put back into that insurance fund during the period of decline a large part of what they had previously made.

Another criticism of the futures market is that it permits short selling. To sell something one does not own seems unusual to the non-business mind. A contract to deliver in the future something which a person does not own at the time the contract is made is common to many types of business but unfortunately the similarity of these contracts is not recognized because the term "short sale" is used only in connection with grain and security transactions.

The argument that short selling unnaturally depresses prices by throwing on the market a non-existent or fictitious supply of grain has no basis in fact. In the first place to permit speculative buying and at the same time prohibit or restrict speculative selling would utterly upset the balance of the market. If the rule was that you may speculate if you buy first and sell last it would permit the speculator to manipulate prices upward

without fear of any counteracting influence, and the practical effect would be to destroy the speculative market entirely.

Short selling does not and cannot create a fictitious supply of grain. There must be a buyer or there can be no seller. If the immediate effect of a short sale is to depress prices, its ultimate effect must be to elevate prices. The short seller automatically becomes a compulsory buyer, for every short seller must equalize his short sale by a subsequent purchase. A short sale when made is not a transaction in cash grain, and as cash grain prices are determined by actual supply and demand the cash price cannot be materially influenced by a mere offer to sell short for future delivery.

The sum total of speculative buying and selling for future delivery keeps the market in line with actual supply and demand both at the present and as nearly as possible to the future.

My conclusions, based on 31 years of actual experience in the grain trade, are that a system whereby hedging of grain can be carried on is absolutely essential to the marketing of grain, and that it would be impossible to have a hedging market without speculation, and that the larger the volume of speculation the more liquid and valuable the hedging market becomes, and that speculation takes no toll from the producer but instead adds to the money he receives. Therefore from the producers' standpoint I think speculation should be encouraged in every way possible.

THE CHAIRMAN—Well, Mr. White, that is a very clear statement. I don't think that I find it absolutely consistent in the first part and the last part. You say in your experience speculation doesn't pay. That must be that the speculators have not done well out of it? A.—I mean by that that speculators as a whole lost money. Some individuals might make money but the losses are greater than the profits.

Q.—You say, "I believe that speculators as a whole put more money into the grain market than they take out, and by so doing enable the producer to secure a higher price for his grain." Now, they either do that because there are a few members who are cleverer than the rest, or——? A.—I think they do it on the same basis as we do in other markets.

Q.—They do it on a Monte Carlo basis. But the majority don't. A.—Yes, in my experience, men who started with me twenty years ago are still trading, some of them.

Q.—Then in addition to the bulls and the bears, and the wolves and the sheep, now we have the "moth"! Well, it finishes up by saying that speculation should be encouraged in every way? A.—Yes, from the producers' standpoint.

Q.—Yes, that we have to breed moths. For some it is impossible because they never make money. A.—Well, that is his own business. I don't contend that every speculator that comes in is a loser. But the speculator as a whole it does not pay.

Q.—Therefore, your concluding sentence really means, "From the producers' standpoint the activities of the speculator who must be prepared to lose money in the long run should be encouraged"! That is the only way I can make the two parts of your statement really dove-tail. A.—Well, that is correct. I believe from the producers' standpoint. I believe he puts more money into the market than he takes out. Therefore the greater volume of speculation is necessary.

THE CHAIRMAN—Therefore, that the speculator and the farmer are really parasitic upon the gambling habit of a certain section of the population? A.—The speculator in the market to my mind is of great value in that he absorbs the wheat on the market coming on the market at a time when the demand is insufficient to take care of it.

Q.—A very useful function and one that should be rewarded in the long run. But you go on to say that he really contributes or subsidises the farmer and the grain trade? A.—Yes, I still stick to my opinion that the speculator puts more money into that revolving fund.

Q.—And I can therefore understand why you are to be encouraged? A.—From the producers' standpoint.

Q.—Wouldn't you encourage him also if he made a bit of profit out of it? A.—He should be encouraged anyway.

Q.—Isn't there some way it could be made possible under the economic structure to take care of him for the function he performs that is worthy of the reward? A.—If we promised them they would be winners.

Q.—Not all winners. But for the extraordinary value they are to their business? A.—I think that they are convinced that the experience they have will enable them some day to be a winner.

Q.—Any large function undertaken in this way should pay its way and ought not to be repugnant; he should not feel that he is to be criticized because of the gambling instinct? A.—I have no opinion as to that.

Q.—Do you think we can get the average farmer to agree with that point of view? Not charge anything at all? A.—I think if we could make the farmer believe that he would not be so much inclined to disparage the speculative element in the trade.

MR. COMMISSIONER EVANS—How then would the profits of the speculators be paid? A.—Out of the losses of other speculators.

Q.—Is there any other margin out of which these profits would come than the margins posted by other speculators? A.—I cannot think of any other place the profits might

come from unless that the speculative buyer had bought wheat and it advances in price and he sold it to the consumer at an advance and in that way made a profit. You might figure that that profit would have accrued to the farmer, if the farmer held the wheat instead of selling it, or, that the producer would be better off.

MR. COMMISSIONER EVANS—But you speak of a revolving fund. In so far as actual money is contributed by the speculators, that takes the form of the payment of margins, the amount of the margin? A.—Well, in all speculative tradings they must keep a margin.

Q.—Well, supposing the market goes in favor of the buy by five cents a bushel, a speculator who had the opposite side of that transaction has been contributing as that market went down until he has contributed that five cent margin? A.—Yes.

Q.—When the deal is closed out that five cents which he contributed is transferred to the other speculator, who is at the other side of the transaction, and forms his profit? A.—That is correct. With two speculators, one on each side of the same transaction.

By Mr. Commissioner Evans:

Q.—That is, no money paid from the producer from any other source contributes to the profit of the speculator? A.—No.

Q.—There is no money goes out of the revolving fund to the outside, in any event, it is just redistributed? A.—It is all speculative money.

By the Chairman:

Q.—It is a change of fortune amongst the people who speculate? A.—Yes.

Q.—But you have seen the side mostly of those who have lost? A.—Yes.

Q.—I mean you, yourself, say that you prefer the advancing prices, or what is called a bull market, as they invariably do more business. Somebody must be buying, and there must be bears as well, but evidently you don't have those very much in your field so much as the bulls? A.—As a broker I have them on both sides of the market, but my net position is invariably long.

Q.—Somewhere else, in some other part of the world, some one must be correspondingly short? A.—As a usual thing with that long wheat we are carrying the hedges. In Canada today there are from 180 million bushels of wheat. I don't know how much of that is hedged, say 100 million bushels. Somebody is carrying the hedges, and I would say it was the speculator, in fact, I know it is the speculator.

Q.—There is something over and above which is also being carried somewhere? A.—I would take it at the present time there is not more long wheat.

Q.—Is there more long wheat in Winnipeg at the present time than there is short? A.—Speculatively?

Q.—Yes. A.—Much larger.

Q.—And somewhere in the world there is a corresponding amount short, isn't there? A.—In speculative wheat.

Q.—But a balance over and above the hedging? A.—Yes, there would be some short interests speculating.

Q.—Isn't that part of the same phenomenon that we have had from the banking witness that the bearish tends to be local and the bullish tends to be world-wide?

MR. COMMISSIONER EVANS—We have 180 million bushels which apparently is not sold for export, which is being carried in the local market, and that is the wheat represented by the short side, and not the outside speculator being short? A.—If there is 180 million bushels of wheat in Canada, and 100 million bushels of that is hedged, the speculator is carrying that 100 million bushels of wheat.

By the Chairman:

Q.—But my point was this, in a bull market, the quantity of work coming into your office proceeds upward much more rapidly than the total quantity of actual grain in the country? A.—No.

Q.—Not on a bull market? Does a bull market only go up in the total business you have with the total quantity of real grain? Surely the essence of the bull activity, the bull market, is getting away from the physical quantities? A.—I don't just follow your question.

Q.—Isn't the essence of a bull market rather that there is a tendency to be a shortage of grain? A.—Yes, it is usually what starts putting the market up.

Q.—The extra bull business you are doing can't be in order to cover extra hedging, it must be speculative? A.—During the bull market there is an increase in speculative buying.

Q.—Somewhere or other in the world there is an increase in speculative selling? A.—Yes, I dare say there is always a speculative short selling in any market, but I contend there is more speculative longs. There may be some shorts.

Q.—But the two things must balance, including the hedges? A.—The long wheat and the short wheat, as far as what you might term the Clearing House, they must balance.

Q.—But they do not balance in your office? A.—No.

Q.—You have more of one side of the picture than the other? A.—We show long two

million bushels of wheat, and you will find some elevator company against the cash wheat they have in Fort William is short that wheat.

Q.—That is a hedge? A.—Yes.

Q.—But you get an increase in activity in bulls which it not matched by an increased activity in actual grain? A.—I have right in my own office some shorts, and I dare say there are other offices that have some shorts.

Q.—But you have a net long position, a very considerable one, and it increases in a bullish market? A.—Yes.

Q.—Where is to be found the corresponding short? Not in Winnipeg? A.—He may not be here, or he may. I don't know where he might be. He might be in Chicago or New York. Myself, we do business from all over the United States.

Q.—Doesn't it tend to show your bulls are local, and your bears are world wide? A.—No, my business mostly comes from the United States.

Q.—You can't help us to find the other side of this transaction, where they really are? A.—I cannot. Most of the short wheat is hedging sales. The speculative part of it may be local, or Chicago, or New York, or against some Argentine wheat.

Q.—Supposing you had a certain quantity of actual wheat, and owing to expectation there was a tremendous bull market. That can't be purely hedging of the increase, it can't be required to balance the hedging sales, there must be speculative sales somewhere to balance it? A.—Yes.

Q.—Now, where are they?

MR. COMMISSIONER EVANS—It would be interesting to find out what the open account is in relation to the cash grain that ought to be hedged, and we can judge from that whether there is a large balance.

By the Chairman:

Q.—I rather assume in the bull periods the increased transactions he is doing in his office must be something in excess of the hedging required. That seems to be by hypothesis from the fact that the bull market shows there is a certain anticipated shortage. A.—I have never gone into that phase to check up how much long wheat there might be, and how much wheat there might be in Canada, to figure how much there was speculative short wheat in America. I have always gone on the broad principle that speculative buying was considerably in excess of speculative selling.

Q.—Where? A.—As long as you have stocks of wheat in Canada you must have a market in which the speculative long is carried.

Q.—I quite agree with you, but it doesn't clear up my point. At a bullish time you do not by hypothesis get large increases in actual grain, it is because there are not large increases that you get the bull markets. You are doing a large number of increased transactions of a buying character, but where are the sellers? They are not in Winnipeg? A.—Some of them might be here.

Q.—Otherwise you wouldn't have a net long position. Somewhere in the world, over and above the hedges, there must be a net short position? Where is it? A.—I can't tell you where it is. If there is a speculative interest at no time can the speculative short interest exceed the speculative long interest. The long interests must exceed the short interests, who have the wheat short. It may be in Liverpool, or the man in New York, or San Francisco, or the local man, or anybody, any place, who has taken a short position.

By Mr. Commissioner Evans:

Q.—May not a good deal of the increased activity in the bull period be the selling of of those who had invested before and who were taking a profit?

THE CHAIRMAN—It might be a velocity of circulation.

A.—Yes, during active markets our daily trading increases. At the same time our net position at the close of the day is perhaps not materially increased or diminished.

By the Chairman:

Q.—It may be offset by a much more rapid transaction in hedging, but I still feel the difficulty, that you haven't shown us where the other side of your bargain is, where you have a very much increased long position and there is no increase in the visible supply of grain. Somebody is selling short in some part of the world, and you haven't got them on your books.

MR. SWEATMAN—It must be through some recorded member of the Exchange. It must represent some known person, because they are all turned into the Clearing House. They must represent this unknown man, wherever he is, there must be some member to represent this unknown man.

MR. PITBLADO—The longs and shorts would necessarily balance. Somebody on the Exchange every day is èither in a long or short position.

THE CHAIRMAN—You may have everybody in the Winnipeg Exchange long.

MR. PITBLADO—No, that is impossible. That is theoretically as a suggestion quite impossible, but that suggestion could be found out by the Clearing House day by day as they stand, but somebody may be long, that is, if there is wheat available to have at the end of the delivery month in October, when the last of October comes somebody is in a long position that has wheat available to them, and there is also a correspondingly short position. It must be delivered by somebody else. They balance in the Clearing House.

THE CHAIRMAN—I am done with your balance. But in his own business he is in a long position, and he is matched by somebody else who is also dealing in the Winnipeg Grain Exchange who will have a short. I am after the elusive speculator.

By Mr. Sweatman:

Q.—May I suggest to Mr. White that some member of the Exchange must represent those additional buyers or sellers? As far as the Clearing House is concerned it must balance. For every long bushel of wheat there must be a short bushel of wheat.

THE CHAIRMAN—Can't you bring to us a witness who is chronically short?

MR. PITBLADO—There is no such animal. I will bring you a speculator, but there is no such animal as a chronically short man. A speculator is a man who is either short or long, according as the grain has gone up or down a little too much.

THE CHAIRMAN—What I mean by chronically short is a man who is short when this witness is long.

MR. PITBLADO—He may not be short when this balance is long, because I think you will find that Mr. White is correct, that the longs are absorbing to a very large extent the man who was short, and those are the hedges. Every man who hedges and sells on the market is short. He may not be there from short selling, because he may have grain back of it, but he is still short, and has to deliver it at some time. That is the long, according to Mr. White takes a large part of the buffer of the hedging or short selling.

THE CHAIRMAN—I am trying to distinguish between that volume of trade which depends upon hedging, and that added quantity of trade which comes through bullish speculative trading.

MR. PITBLADO—I don't think that quantity is such that it exists on this market, I am telling you quite frankly about it, you can't find on this market, I am advised, men who are constantly short sellers. You will find the speculator who is in and out today, if he sees there is a small margin to be made.

THE CHAIRMAN—The witness practically told us that he didn't know of him here. He must be somewhere else. Now, I am told he works through the Winnipeg Grain Exchange.

MR. PITBLADO—If he exists. You have assumed that he exists. I am going to suggest that the large bulk of this is taken up by the hedging, that the large position of the long interests is, as Mr. White suggests, the long interest is absorbed in taking up hedging.

MR. COMMISSIONER EVANS—I wonder if Mr. Evans is not here now. We might have asked him what their position was.

MR. PITBLADO—All these elevators that are carrying grain are all short.

MR. COMMISSIONER EVANS—They are when you find the opposite end.

MR. PITBLADO—We could probably trace that end. I suppose Mr. Evans wouldn't hesitate to tell you how their position is, but I think everyone of these elevator companies that has cash grain today is short on the market.

THE CHAIRMAN—Every representative we have had of these elevators so far does cover himself; he is neither short nor long.

MR. PITBLADO—He is short today, but he will cover himself. They are carrying grain with a hedge, and haven't closed the transaction yet, they have protected themselves but they are all short today.

THE CHAIRMAN—I follow you there, but I don't yet follow this: The fact that when a certain section of the public become bullish on the future prospects of grain there will be a lot of elevator people becoming shorter than they should have been.

MR. PITBLADO—I don't think that is suggested, but when there are regular hedges going on day by day, somebody absorbs them, and that absorbing element is the man who is willing to go long.

MR. COMMISSIONER EVANS—We will have an opportunity of getting what figures are available from the Clearing House, I presume, so we can have some basis of real figures on the cash grain position.

MR. PITBLADO—I think we will try and get some figures. Let us take the position of the market at the close today. You have on the one side in the Clearing House longs, and on the other side shorts. See what the long position is there. If the long position is more than the available grain that is in the country, that is, you are not over-sold unless you are long. You have got more than there is grain in the country to deliver on. You see what I mean?

THE CHAIRMAN—I would like anything that would help clear up this, that when things look rosy, and a lot of people come in through that office as speculators, why that should increase the number of people who sell short on hedging is not clear to me.

MR. PITBLADO—I don't think you got quite the angle of Mr. White.

By Mr. Pitblado:

Q.—Have you speculators in your market today, speculative traders? A.—Yes.

Q.—A large quantity of them? A.—Yes.

MR. PITBLADO—It all depends on whether you say this looks rosy. To these people it will look rosy, yes, if the price is going up.

THE CHAIRMAN—He is long.

MR. PITBLADO—Yes.

THE CHAIRMAN—Who is short? Only the hedgers?

MR. PITBLADO—My answer to you as to who is short is, you will find all the elevator companies are short; everybody who is carrying any cash grain are all short on the other side. But these gentlemen who are in there think the grain is going up. In other words, a depressed market does not drive them out. You have still got them carrying largely the hedges. I think you will find that practically the long speculator prefers that service to a large extent of carrying the hedges. If you drop off that I don't know who is going to carry the hedges as they are hedged. At least, I am suggesting it to the Commission, and I am not an economist, I am a lawyer.

THE CHAIRMAN—From which end does the initiation come? Does the existence of a strong bull market amongst this class of people create a short selling, or does the short selling bring into existence this bull market?

MR. PITBLADO—I am neither an economist nor an operator. I never bought nor sold a bushel of wheat on the market in my life. I am only a reader of the literature you have to read, and here is an experienced man who operates, Mr. White might tell you that. It is like that question you were dealing with a little while ago, Who pays the freight? You have heard that discussed, and we all say that the consumer in this country pays the duty, and the producer will tell you that he also pays the freight to the market in this country. If we could get the freight reduced from the west to the east the producer is going to get the benefit of that. Now, what position is right I don't know. Just in the same way I don't know who could enlighten you on who starts this thing. There is the market, somebody has to buy. I don't know whether they initiate it or not. I can bring you twenty more men of the elevator companies, more than that, fifty men, to tell you they go on the market to sell, and they have got to sell their grain in order to hedge it.

THE CHAIRMAN—Would you suggest that the amount of hedging, or the revenue of hedging on the immediate quantity of grain is very much greater when prices are falling?

MR. PITBLADO—There is a witness that is here, Mr. Richardson, whom my learned friend Mr. Hoskin thinks can make this clear to the Commission. You can call him right now. I was going to call him in the morning.

THE CHAIRMAN—I was interested in the quantitative equivalents, that is whether you could only have a bull market at a time when the real hedges are in difficulties, and my second point is, which comes first, the hen or the egg?

THE CHAIRMAN—I really do want to clear it up, because it is not the least bit clear to me.

MR. PITBLADO—All I know is that Mr. Richardson he suggests it. What I am going to suggest is that in order for the country elevator to buy he must make a sale, and he does sell for whatever is going right then and there. He doesn't say, "I don't like the look of the market this morning; I am going to wait till night", he sells it, and that is my suggestion.

THE CHAIRMAN—And he seems to bring into existence in some magic way a new lot of bull speculators. A.—There are people watching all the markets of the world, that doesn't start with him.

MR. PITBLADO—There are people working out how is wheat going to be in May next, and there are some people who think they can forecast that; there is a lot of them over Western Canada; in 1929 we had a lot of people forecasting that wheat was going to $2.00; we heard it everywhere in that period. Fortunately we were not all carried away by that, because some of us haven't got much of that speculation in us; but a tremendous number of people thought wheat was going to $2.00. It didn't go to $2.00. The grain companies kept out of speculation; but there was always someone when they were selling to hedge at $1.30 or $1.50.

THE CHAIRMAN—I am much more concerned with this man's evidence; the witness was saying that as a whole they prefer the bull market. The effect of the witness's evidence on my mind is to show in some way I cannot understand that that advance in business is quantitively linked with the amount of hedging that is to be done on physically existing wheat, and is not matched by some unseen speculator.

MR. PITBLADO—The broker must prefer a bull market, because he gets traders; but he is not in the aggregate making money.

THE CHAIRMAN—On the question of the volume of business, it is said to be greater, and it seems to create a greater amount of hedging. Is there not a speculator broker, futures broker, brokers on what I call an upward tendency market, because he is doing more business, more bears coming in, more sellers.

THE CHAIRMAN—Q.—Who are the sellers? A.—They may be local. You have a market that only varies a quarter or half a cent per day, there won't be much trading; but when the market moves two cents in the day people come in and buy and sell, probably the same day.

MR. PITBLADO—Q.—The quantity of transactions is much larger? A.—Yes.

By the Chairman:

Q.—But at the same time the total quantity of wheat that exists has not increased? A.—Not at all.

Q.—And the total quantity of necessary hedges has not increased; therefore the number of sellers not doing hedging must have increased? A.—Sellers and buyers.

Q.—You have got the buyer I am trying to find the sellers. A.—The quantity of wheat to be hedged has not increased; on the advancing market there might be more wheat sold by producers, and speculators sometimes hold off and do not sell their wheat until there is an advance, and more wheat appears to be on the market, although the wheat comes in and is sold on a hedge.

Q.—Is the effect of your evidence that you might have a bull market, and the bull market running has increased the quantity of actual wheat being sold. If that is not so then there must be some speculative selling? A.—There is speculative selling.

Q.—Well now, your position is long, somebody's position must be short, other than the hedging—whose is it? A.—Could I illustrate it in this way: supposing that there were only two firms in the Grain Exchange clearing trades, my own firm and Mr. Evans' firm, and I was long two thousand of wheat, speculative, and Mr. Evans might be short 2000; I would hedge on the speculative wheat long; there wouldn't be any necessity to be speculative short; we would balance my long wheat against his short wheat; but his wheat is not speculative.

Q.—Supposing on top of that I come into the market as a bull speculator, and I put a lot of transactions through you; who does the other side? Does somebody do some more hedging of wheat that doesn't exist? A.—It wouldn't be necessary for more hedging to come into the market.

Q.—I come in with a bear speculative offer? A.—Some of my customers would sell it out to you, and I might finish up at the end of the day just in the same position as before, but my clientele having changed; Mr. Evans might have sold out his long wheat and turned it over to you.

Q.—I am doing my dealing by some unseen person who is a speculator. A.—The speculator may have sold out and you are taking his place.

By Mr. Pitblado:

Q.—A man comes in and speculates, you might buy in the morning and sell in the afternoon? A.—Yes, in an active market there is a lot of that done.

Q.—So that increases so much the volume; he may have bought in the morning and sold in the afternoon, and he may then buy again the same afternoon if he thought it had gone down again? A.—In the active market we have many traders who are coming in and out in the same day, or within a short period of time.

Q.—And that increases your volume, but they are perhaps buyers in the morning and sellers in the afternoon, or buyers in the afternoon and sellers in the morning? A.—Yes, that is correct.

Q.—And that has to be taken into account; you are not dealing with a man who is always bullish.

By the Chairman:

Q.—I am only taking his position as being generally long, and preferring a bull market; the effect of his evidence on my mind is that he has a number of speculative bulls, and there is no such thing in existence as speculative bears. A.—I don't suggest that.

Q.—I am only putting it very crudely. A.—I don't suggest that there are not lots of short selling speculative bears. There is some speculative selling in the market; I have them in my office.

Q.—Which balances your long? A.—Yes. I have right in my own office speculative short wheat.

Q.—With regard to that balance; there is no speculative bear position except a hedging position? I am sorry to appear so stupid but you see I approach this absolutely neutral. A.—It is probably my fault; I can't explain it a little more lucidly. We might find an office in the Grain Exchange that was actually short wheat speculative; I dare say probably there is such a thing.

Q.—Oh good; I am a bit relieved. A.—I have short wheat right in my own office, but mine balances Mr. Evans' long wheat, and Mr. Brown's long wheat, 10,000 bushels each, a total of 20,000 bushels, and I have Mr. Darby there 5,000; I am long 15,000.

MR. PITBLADO—That is an illustration?

MR. COMMISSIONER BROWN—I would hope so.

Q.—You are only using Mr. Darby's name as an illustration? A.—Yes.

THE CHAIRMAN—You appreciate the difficulty I had in my mind; I can't see why the speculative bull position should affect the quantity of wheat to be hedged; I should imagine that there would be a balance somewhere of speculative shorts.

MR. COMMISSIONER EVANS—Yes.

WITNESS—My answer to that is that the speculative long interest in my opinion always exists; the speculative short interest existed on the short side; you have the hedges.

By the Chairman:

I agree with you, having added a very considerable sum to one side of the account I would expect to see something added to the other. A.—There is existant a short speculative interest.

Q.—Where is it?

MR. COMMISSIONER EVANS—The additional speculators coming in must be matched by additional short sellers who come in or they couldn't buy, that is obvious; they are supposed to come in or they don't buy.

THE CHAIRMAN—To put it in entirely on an increasing hedge.

MR. COMMISSIONER EVANS—What Mr. White has pointed out, if increased activity results in rising price why there is more wheat goes out.

THE CHAIRMAN—One of the reasons for high price is that wheat is short in the total quantity? A.—That is the actual supply of wheat.

MR. COMMISSIONER EVANS—In the world but not necessarily short here?

THE CHAIRMAN—At any rate you do not think there is anything in my hypothesis that the bull side of the account is in Winnipeg and the bears scattered over the world? A.—No, I do not think so.

Q.—I put it forward to account for some of the pondering in your evidence? A.—No, I think we have what you term speculative short sales made in Winnipeg.

Q.—And that short position is on the part of brokers like yourself? A.—The brokerage business, such as my own. I know from conversations with them, they do not tell me their exact position but as a general thing they are long wheat.

THE CHAIRMAN—Very good. I will pass on.

MR. SWEATMAN—What are the commissions charged? A.—The commission charge to the non-member of the Exchange is one-quarter of a cent per bushel. The commission to a member is one-eighth of a cent.

Q.—Each way? A.—That covers buying and selling.

MR. COMMISSIONER EVANS—An eighth each way makes a quarter? A.—It is charged on the total transaction. We have various rates of commission but those are the two rates covering members and non-members. There are other rates for certain classes of services.

THE CHAIRMAN—I think we have gone over our time now. Is it convenient for you to break off now?

MR. SWEATMAN—Very well.

(The Commission adjourned at 5:35 p.m., to meet at 10 a.m., April 14, 1931.)

Royal Commission on Grain Futures

10 a.m., April 14, 1931.
Royal Alexandra Hotel,
WINNIPEG.

JAMES A. RICHARDSON (called)

Examined by Mr. Pitblado:

Q.—Mr. Richardson, I believe that you are the president and general manager of the James Richardson & Sons, Limited? A.—Yes.

Q.—And I believe your company operates country elevators, acts as commission agents, owns terminal elevators and are also exporters? Am I correct? A.—That is correct.

Q.—And I understand that you have from your exporting line an office in Eastern Canada? A.—We have.

Q.—Where? A.—At Kingston and Toronto.

Q.—And then you have, I understand, an office in New York? A.—No, not an office in New York. We have a private wire connection from New York but we do not maintain an office there.

Q.—Just a little louder, Mr. Richardson, please. A.—We have a private wire connection with New York but we do not maintain an office in New York.

Q.—That is from your Kingston office or Toronto office? A.—Montreal office.

Q.—You have an office also in Montreal? A.—Yes, Kingston, Toronto and Montreal.

Q.—And you have a wire running to New York? A.—Yes.

Q.—I understand your company has been in business a long time? A.—Yes.

Q.—I think, I am not sure about it, but I think it came out in one of the Commissions that was sitting that your firm shipped the first Western Canada wheat that went to the Old Country? Am I correct about that or not? A.—Not absolutely correct. The first wheat that crossed the lakes of any volume, was in 1883. We exported wheat to Liverpool in the winter of 1884, but there was a more or less prior shipment, a smaller one, prior to that, but it was the forerunner of the movement across the lakes.

Q.—So the experience of your company goes back a long way? A.—Yes.

Q.—What about your own experience: how long have you personally been in the business? A.—I have been in the business twenty-five years.

Q.—You have been away till very recently? A.—Yes, I have been away the last two months.

Q.—And just got back when? A.—I got back on Friday morning.

Q.—So you haven't had any opportunity, I understand, to prepare what statement you would like to make, but you have, I understand, a short statement which you have prepared that you would like to read? A.—I made a short memorandum on two or three matters which I would not like to overlook.

MR. PITBLADO—If you would like him to elaborate upon it he will do so.

THE CHAIRMAN—We understand. We are obliged to Mr. Richardson for coming.

MR. PITBLADO—I will ask Mr. Richardson to read the points he has there, to the Commission.

MR. COMMISSIONER BROWN—You are not putting them in as an exhibit? A.—I haven't any statement to file because I have not had time to make any preparation. I thought possibly I might be most helpful if I volunteered any information I might have on any aspects of the grain business. But there are two or three memoranda I have made here that I would like to read in regard to my general views and that is: I think that the effect of an open market in Winnipeg for grain futures is to record a price to the world which reflects the value of Manitoba wheat in the world's markets as accurately as best informed opinion is able to reflect it, taking fully into account the requirements of the importing countries, the available supplies elsewhere and the general economic conditions as reflected in the purchasing power of a bushel of wheat.

Speaking from the point of view of a country elevator operator the open futures markets records a price that we know we can obtain and enables us to buy in the country on a much closer basis than would be possible if we had no assurance of what price we might have to sell our grain at. Moreover, it would not be possible to borrow money to finance our purchases in the country if there was no assurance as to what amount of money the sale of our grain would realize; hence we follow the general practice of hedging our grain as we buy it.

Speaking from the point of view of an exporter, with sometimes millions of bushels of grain sold abroad, I can say that we would not dare consider selling this grain on a fraction of a cent profit, for delivery sometimes months ahead, if machinery were not

set up such as to absolutely assure us of getting the grain that we had purchased. That is, we could not bind ourselves to deliver grain in Europe months hence for a small profit per bushel if there was a possibility of grain advancing greatly in price and the people from whom we had bought for any reason whatsoever refusing to make delivery. The machinery of futures market provides for this contingency.

With a futures market established it is normally customary for exporters to sell abroad a very considerable amount of wheat in May, June and July for shipment in September, October and November. At that time the buyer abroad does not know what the outcome of the crop of the northern hemisphere will be and if prices appear to him not too unreasonable he is disposed to buy part of his requirements in advance and it is a great advantage to have a lot of grain sold when it starts moving to market in volume in October, as against having perhaps 4,000,000 or 5,000,000 a day coming in for which buyers are required to be found.

In my opinion the abolition of the futures market would result in a wider spread between the selling agencies on the Winnipeg market and the producer and the whole of the wider spread would fall on the producer—in other words the buyer in the country would not be able to pay as high a price relative to the world price as he now pays the producer.

My reasons for this are (1) the price on the Winnipeg Grain Exchange is absolutely tied up with the world price and the world price is dependent on a great many other factors. None of the people who render service in the transporting of the grain of the producer in Canada to the world market can afford to reduce their remuneration and (2) if the cost of business were increased it would of necessity have to come off the producer.

If there is any additional risk the merchant will have to be reimbursed in some way or other. I am quite sure that the closing of the Winnipeg futures market would result in a wider spread between the exporter on this side and the importer in Europe, because the exporter would have to have additional profit to protect him against uncertainty and additional risk he would assume in covering his orders. I am just restating here what I stated earlier that this would ultimately fall back on the producer, because the elevator operator and shipper now cannot work for any less profit than they are getting and they would have to be paid for the additional risks they would have to assume. I am quite sure that the consumer would have to pay the additional expense for the reason that we have to meet a world price and anything added to the expense of the business must come off the producer. We have got to go back and work from that, that is all we can get. We cannot get a higher price. We cannot advance our price to the consumer in order to take care of additional costs. He will only pay so much of the costs, whatever they are, incidental to delivering the grain and it ultimately has to be borne by the producer. If the futures market were done away with the incidental costs would be increased, that is my opinion.

There was a question asked here yesterday: When there is a bull market and the speculators have come into the market, who are the sellers? Well, in that connection I think that it should be mentioned that the amount of open sales for futures in the Winnipeg market is never at any time equal to the amount of grain in the Canadian visible stocks. I think it will be found that the amount of open sales never at any time in the history of the Grain Exchange equal the total amounts of cash grain. We have, I suppose, in the country elevators a storage capacity for 150,000,000 bushels of grain. We have about 15,000,000 bushel capacity in Vancouver and 80,000,000 to 90,000,000 at Port Arthur and Fort William. That is, we have a total elevator capacity west of the lakes of 250,000,000 bushels. Sometimes a large part of that capacity is used, and while a large part of that grain is sold in Winnipeg for future delivery, at no time are the future sales in this market equal to the actual stocks of wheat in the country.

By Mr. Commissioner Brown:

Q.—Where did you get that information? A.—The records of the Clearing House will show our open trades.

Q.—From day to day? A.—From day to day.

Q.—Over a period of years? A.—Yes. I am quite satisfied that that record will show that at no time are our sales in excess of the total amount of grain that we have in Canada. I think I would say that the total amount of grain west of the lakes is never totally hedged.

Q.—Of course, that is a large amount of grain that we have in Western Canada. You could have a great volume of open sales and still not equal the amount of grain we market in Western Canada? A.—Yes, we could.

By Mr. Commissioner Evans:

Q.—Do you hedge the grain you have in possession, in Winnipeg, east of the lakes? A.—Yes.

Q.—And you hedge your exports and shipments in Winnipeg? A.—They are hedged until the buyer accepts the offers and then the hedges are listed, but they remain hedged until they are sold.

Q.—So that in addition to the quantities you are mentioning in respect to elevator capacity west of the lakes, you would have quantities east of the lakes, part of which may also be hedged? A.—Yes, that would be hedged. And millers' stocks in the east, a certain amount of that would be hedged. In answering the question as to who the

sellers are I would say that firstly and by far the most important sellers would be represented by unhedged grain in country elevators and in terminal elevators. While the trade may have largely hedged their grain, there is always a lot of grain in the country elevators that is not hedged.

By the Chairman:

Q.—To whom does that belong? A.—This belongs to the farmer. It is estimated that at least fifty per cent of the grain in country elevators is unhedged grain belonging to the farmers. When there is an advance in the market a large amount of this grain comes out. We never get a hard spot in the market at any time. There is an impression that the farmer is not a good merchant, but he sells at hard spots. When there is an advance in the market he sells some wheat. Now, that has happened in the last few days. We have had a rally in the market and there has been very good selling from the country. When there is an advance in the market the selling of grain in the country by the farmers is always coming up. As a matter of fact, that grain is being brought into the elevator every day in the year and is being purchased by the elevator, and on any advance in the market part of the sales represents purchases which country elevators had made from farmers. It also represents sales which have been made of grain that farmers had, not only through daily sales that they are drawing to the elevator every day, but sales against grain they own which is already in the country elevators or already in the terminal elevators.

Q.—Do I understand that fifty per cent of the grain in existence at any time still belongs to the farmer and is unhedged, simply stored in your elevators? A.—In the country elevators.

Q.—Standing the risk of rise or fall in price all the time? A.—Well, I asked our own elevator today and they said about forty per cent, and I consulted other elevator operators and they said that probably up to November it was never under fifty per cent.

Q.—And the farmers' practice in hedging grain that he still holds vary according to the state of the market? A.—He sells it when he likes the market.

By Mr. Commissioner Brown:

Q.—You say "Up to November"? What do you mean by that—"in the fall up to November"? A.—Yes.

Q.—Once you strike November he has got to unload? A.—No. There is about forty per cent in the elevators now, in our country line, belonging to the farmer today.

By the Chairman:

Q.—How is it financed? Is it financed entirely out of the farmer's capital? A.—A good deal of that, or he gets advances from the elevator.

MR. PITBLADO—The elevators loan.

By the Chairman:

Q.—Do the elevators do what the banks do, require all advances on grain to be hedged? A.—The elevator will only make an advance less than the full value of the grain, and if the grain should decline to where the margin is exhausted, of course, they reserve the right to sell the grain, which they do.

Q.—The elevators do not insist on the farmers hedging when they give advances? A.—They don't insist on the farmers hedging, but they hedge for him if the market goes down.

MR. PITBLADO—The elevator takes the grain; they have possession of the grain.

By the Chairman:

Q.—If the elevator buys the grain, they hedge? A.—Yes.

Q.—Apparently, if they advance on the grain they require the farmer to hedge, or they themselves hedge? A.—Not right away. If the farmer puts grain in his elevator and he wants to get an advance against it, they may.

By Mr. Commissioner Evans:

Q.—Your general advances, about what percentage would it be on the market value at the time—your advances to the farmer? A.—About fifty to seventy-five per cent.

By the Chairman:

Q.—The elevators are interested in grain in the west which they have bought and which they hedge, and also in that portion which they have advanced money on to farmers, which they do not insist on hedging: is that right? A.—Yes. They just advance him. If he has grain in the elevator and does not want to sell it and wants an advance against it, they will make him an advance against it.

MR. PITBLADO—They loan him money against the grain.

THE CHAIRMAN—Reserving sufficient margin to secure themselves.

MR. PITBLADO—Yes.

By the Chairman:

Q.—Do they do that out of their own funds or do they borrow from the banks? A.—They borrow from the banks to do that.

Q.—Do the banks have any different system in lending money to elevator companies on their own grain than advancing money on other people's grain? A.—Well, that would be shown in the bank's statement as advances made against grain, fully protected.

Q.—The banks are making two kinds of advances: one to you on the grain which you yourself own, which is hedged, which they insist on being hedged; and they are making advances to you for the purpose of you making advances to farmers on grain that is held on margin? A.—Which grain the farmer owns outright himself. The amount of money the elevators would advance against grain on their line would not be a very serious factor in the financing of those companies. They will show that on their return to the bank as advances secured by grain.

Q.—Of this fifty per cent of grain physically in existence, unhedged, in the hands of the farmers, owned by him, what proportion do you think is held by the farmer on his own capital? A.—Well, personally, I am not in as close touch with the line elevator operations that I could answer that offhand. I could get that from the line elevator companies, but I would not want to say offhand, because I might only be guessing.

Q.—Do you think it would be a small amount? You see, we are very interested in knowing the extent to which the farmer is carrying the risk. A.—I would say he is carrying most of the risk himself.

Q.—We are very interested in knowing how much of the total quantity of wheat in existence does not come within the insurance scheme provided by the futures, is really being held by the owner of it with risk of fluctuation in price. Now, that is a very important proportion, if it is fifty per cent? A.—Yes.

By Mr. Commissioner Evans:

Q.—That is the percentage of grain received by the line elevator companies, the trade lines? A.—I would say from forty to fifty per cent of the amount of grain in the line elevators at any one time over a large part of the year, at least, belongs to the farmer.

By Mr. Commissioner Brown:

Q.—Does that mean the terminals too? A.—No, I would not say terminals. That would be pretty hard to say.

By the Chairman:

Q.—It is not fifty per cent of the wheat in existence? A.—No, I would not say that.

Q.—I want to find out the proportion of the total wheat in existence at any time that is unhedged? A.—Well, I could not say that. What I can say is that fifty per cent of the grain in store in country elevators belongs to the farmer. Then, there is grain on the farm behind that. Again, also, that belongs to the farmer.

By Mr. Commissioner Brown:

Q.—When you speak of the country elevators are you speaking exclusively of Pool grain? A.—I am speaking about country line elevators.

Q.—Are you including the Pool farmer, as well as the non-Pool? A.—No, I am not talking about the Pool farmer.

Q.—You handle Pool farmers' grain in your line elevators? A.—Yes.

Q.—Do you include the Pool farmers' grain that is in your line elevator when you speak that way?

By the Chairman:

Q.—I was putting it another way. Was this state of affairs four or five years ago, or only recently? A.—As to the actual details of this matter I would sooner that the manager of the line elevators should answer that question. I got my information on this hurriedly by asking two or three line elevator people and they told me that fifty per cent of the grain on the line belonged to the farmer. I asked our own manager and he gave me the same information.

Q.—Does that include the Pool farmer? A.—I could not answer that. I just passed that information on the way it was given to me. I would not want specifically to answer that.

By Mr. Commissioner Evans:

Q.—You were speaking only of trade line elevators, and not Pool elevators at all? A.—I am only speaking of trade line elevators.

By Mr. Commissioner Brown:

Q.—There is a lot of Pool grain in the private elevator warehouses?

MR. SWEATMAN—Not now, I am instructed.

By Mr. Commissioner Brown:

Q.—I was under the impression they did handle quite a bit of it during the year. That is what I want to know. A.—That is a question of fact.

By the Chairman:

Q.—Can you clear that point for us? We want to know of the non-pool grain, what percentage at any time belongs to the farmer unhedged. A.—Yes, we can ascertain that.

By Mr. Commissioner Brown:

Q.—And can you ascertain at the same time how much in the terminal elevators of the line companies is farmers' grain and how much the line companies',—how much is purchased grain? A.—I think we could ascertain how much, through the books. I think we could possibly ascertain how much grain in Fort William is owned by farmers. I think it is possible to ascertain that.

By the Chairman:

Q.—You see, it is a very important qualification of the claims made for the hedging system and its influence on the price, if one half of the grain is not hedged by the Pool, and a very considerable portion of non-Pool grain is also unhedged by the farmers and remains unhedged until it comes into the market. A.—What I want to make clear is that at no time are the hedges on futures in this Winnipeg market anything like what I think you, Mr. Commissioner, called the equivalent. You wanted to know what the quantity of equivalent was. There is far more grain in the country unhedged than there is hedged at any time. That grain will be held by millers in the East, by farmers and merchants, but there is always a large amount of grain that is held in the country for which there is no hedge in the Winnipeg market and on a "bull" market that grain comes out.

Q.—That is a very important fact, of course, but have you ever heard the suggestion made that one of the tests of the speculative element in futures marketing is that there is an enormous sale of what I believe they call "wind bushels"; these statistics of futures are far in excess of the existence of wheat? A.—Yes, I heard that statement.

Q.—Now you are telling us that really is not so, that there is always a very large quantity of unhedged wheat? A.—Our records will show that.

By Mr. Commissioner Evans:

Q.—At a later stage, from Fort William, would there be much grain unhedged on the further movement? Would that grain which remains unhedged at Fort William come under the hedging at some stage later than Fort William? A.—Yes. After it left Fort William a good deal of that grain would be hedged, and when the grain is sold the hedge is purchased back. Most of the grain that crosses the Lake goes right across with a hedge on it. When we ship grain across the Lake to Buffalo and Georgian Bay and put it in an exportable position we leave the hedge on it in Winnipeg May wheat. We could not export it if it was back on the Prairie or in Fort William. We have to put it in exportable position. Now, supposing the cost of putting that hedge on in Winnipeg was nineteen cents a bushel we would try to sell it for nineteen and a half cents, in which case we would buy back our hedge which cost us nineteen cents.

By the Chairman:

Q.—Would this represent your view: when one makes comparisons of the total wheat in existence with the total turnover in futures trades, it is really a false comparison? In fact, you have a considerable quantity of grain not hedged and a considerable quantity hedged, and in relation to the quantity that is hedged the statistics of futures trades are far in excess of that quantity, because of the system of duplication and repetition and spread, and the like? A.—Yes.

Q.—But the fact that you have four or five or six times the statistics of futures in relation to the hedged quantity is to obscure the fact that you have a large quantity of unhedged wheat? Is that the difficulty we are up against,—there is no real comparison between the statistics of futures and the total amount in existence? A.—Owing to the character of the business we do a lot of trading every day during the market session, for reasons which I will endeavor to explain. But every day at the close of the market our records will show that we have at no time outstanding futures equal to the full amount of grain that is in our Canadian visible. But we have quite a lot of trade every day going on of a volume that to the layman is very difficult for him to understand why it is so great. And that is a market which is very easy for us to get in and easy to trade and change our hedges in. For instance, the man in the country sells the grain to come forward. He is afraid to sell October for fear it won't be there in October, and he sells it in November. When the grain arrives in October, if October is a little better price, he buys November and sells the October and delivers his grain. We buy a lot of different grades of grain that we are going to put onto a boat and we get some advice from our Eastern office that they want to change these grades. Perhaps that boat holds three or four hundred thousand bushels. We sell that grain and buy other grain that suits our shipment better, and that all goes through the Clearing House. That runs to six hundred thousand bushels on that one boat, the futures which were exchanged for these trades. And there is an enormous amount of volume, legitimate business, that goes all the time through that market, that looks to the layman unreasonable. But that does facilitate trade and, when you look at that, it is not a fictitious price. You can go and trade in it and it is that volume of trade that is going on all the time that makes the real market.

Q.—Your answer to the statement that the system must have a depressing influence on price because it enables the same quantity of grain to be sold a dozen times in the market,—your answer to that is that it is not in fact being sold a dozen times over, it is merely a method of transferring from one person to another and does not affect the price? A.—I would say so. It is just the machinery which facilitates business.

Q.—It is an optical delusion that the grain is being sold twenty or thirty times? A.—I would not want to use that word exactly.

By Mr. Commissoiner Brown:

Q.—You say that would possibly explain it? A.—It is all legitimate business and it is part of the machinery which we built up in the course of time to facilitate the operation and conduct of the cash grain business of this country and, in my opinion, it is a very effective piece of machinery and works in the interests of the producer. Of course, we naturally want to get as high a price as we can for our grain, but, speaking as a grain merchant, I fully realize that if the farmer does not make money and prosper my business

is no good and our elevators are of no value unless the farmers prosper and make money. We want the farmer to grow more wheat and make more money and give us more grain to handle. It may be a selfish interest, but that is what we want and would like to see accomplished and we are not blind to the fact that getting our wheat out of line with the rest of the world may not be in the interests of the producer and, in fact, is not in the interests of the producer. It is quite important that we should know how to get good prices. We want to get good prices, as good as we can, but it is very necessary to know how low wheat could go in order to see we supply our quota into the world's market. We are interested in tomorrow's breakfast, that is what we want to supply. Yesterday's breakfast is gone. If we miss our chance to supply that, it is gone, but we have got twice as much to sell tomorrow and we have not got any more buyers.

By the Chairman:

Q.—That is a pretty common feature in all kinds of commodities. We have to answer the question what effect the system of futures trading has upon the price received by the producer. Now, supposing you had a system of futures and it was not very popular, nobody cared about it, and only five per cent of the total wheat passed through it and ninety-five per cent of the wheat went on the non-future business as cash transactions; obviously, the effect of that futures system on the price of all grain would not be very important? A.—Unless the futures system recorded a greater volume it would be of no use.

THE CHAIRMAN—If only a few people use it, if only 5% of the people used it, it would not influence the others very much? A.—No.

Q.—We are contrasting two systems, under one of which with hedging the fluctuations affect the price upon a certain class of people. It is not borne by the dealers or by the elevators but, as we were told yesterday, it is pushed continually on. Now if only 5% of the grain passes through the system it cannot have a very pronounced influence. Now, on the other hand, if ninety-five per cent of the grain passes through the influence would be marked? A.—Any amount of grain that would be kept out of our market, the influence would be marked to a large extent.

Q.—I would like to know how much grain is handled and dealt with outside the futures market and I would like you to make your evidence as precise as possible.

MR. COMMISSIONER EVANS—Well, if we were to trace Canadian grain through to its ultimate conclusion, is there much Canadian grain that is not hedged? A.—Very little.

Q.—Either hedged at the ultimate consumer in Europe or in the market here? A.—Very little.

Q.—What Mr. Richardson is talking about is the primary stage. A.—Yes.

Q.—The effect on the primary stage with the effect of what the ultimate consumer might be able to take, securing wheat here instead of in Australia, and the question would be whether all our Canadian wheat was not hedged.

THE CHAIRMAN—Yes, I appreciate the point that Mr. Evans makes. I would grant that that is important. But what I ask is that at any particular stage you have a large quantity of wheat that is in an unhedged condition? A.—Yes, at all times.

Q.—And that generally belongs to the farmer? A.—I don't think so. In our futures trading in Winnipeg stocks much in excess of our futures open contracts on the Grain Exchange, but there are millers that might own some of that stock——.

MR. COMMISSIONER BROWN—They hedge. A.—In Eastern Canada. There is a lot of grain in our Eastern transfer houses and there is unhedged grain belonging to the farmer and the merchant and the dealer, and a lot of people besides the farmer that have some of that unhedged grain, while the country elevator, as a practice, keep themselves fairly fully hedged at all times. There is, among them, a sum total of 5,000 elevators, some unhedged grain.

THE CHAIRMAN—Following on yesterday's evidence, when we have a considerable increase in the bull market by speculators, I am told they are not matched by a lot of bear speculators.

MR. PITBLADO—Mr. Richardson is going on to give three or four different places. This one is not exhaustive with him.

THE CHAIRMAN—You are going on to deal with the extent to which the farmer comes into the unspeculative market. Now, I will come back to your evidence on another matter. You very rightly were pressing the effect of the altered cost, in the general transaction. A.—Yes.

Q.—And you said, very rightly, looking forward, where it has come to that trend of the market that Canadian wheat was regulated by world price and any change in the world conditions had to be put on the producers. You have no chance of putting it on the consumer because he is in a world market? A.—Yes, that is my point.

Q.—If there were no other wheat but Canadian wheat your answer might be different? Supposing there were no other wheat in the Liverpool market, wouldn't you have a chance of forwarding it to the consumer? A.—We would be up against other substitutes for wheat.

Q.—You would only have the question of substitutions to contend with? A.—Yes.

Q.—But not rival wheat? A.—Yes.

Q.—A much enhanced price of wheat would affect the demand? A.—Yes.

Q.—And the producer would have less to produce? A.—Yes.

Q.—That would be the situation in that extraordinary state of affairs? A.—The higher the price the less the consumption.

Q.—Now, you have stated the state of affairs if you had no futures market in Canadian wheat; that it would increase the total cost of carrying the thing through? A.—Yes.

Q.—And that is on the producer? A.—Yes.

Q.—That is, as a result of wheat prices? A.—Yes.

Q.—Supposing that no futures market existed anywhere in Chicago, Minneapolis or Liverpool, then you would have a world price of wheat in which all futures had been abolished? A.—Well, I think we would have chaos. I don't think anybody would know what grain was worth any place and I would like to be a grain merchant at that time. Because an article of which everyone knows the price is the article on which there is less profit to be made. For instance, if you buy a Bokhara rug you don't know whether the man is making a hundred or two hundred per cent. But everyone knows what the value of wheat is. If nobody knew the value of wheat we would make a better price in selling to somebody down in New Brunswick.

Q.—If there were no futures at all in any market you would have a state of affairs under which you might save the producer and put it all on the consumer? A.—Yes.

Q.—But so long as the rest of the world has a large quantity of wheat marketed on this basis you can only stand from under this system by putting it on at some point? A.—Yes.

Q.—Your answer is contingent upon the world prices being in line with the principle of values? A.—That the incidental charges would have to come from the producer.

MR. COMMISSIONER EVANS—Well, has it been your experience as an export merchant at the higher price levels there is some restriction of demand and that less is consumed at higher levels? A.—Yes, I am quite satisfied that high prices increase the urge to produce and discourage consumption and that low prices cause the wastefulness and increase the consumption. And I am satisfied to-day that we have never had a time in the past when we have had bad industrial conditions and low wheat prices and when the consumption of bread stuffs did not enormously increase and I do think if it were not for the very high tariffs in Europe we would see a large increase in the consumption of breadstuffs. I am very hopeful we will see a reduction in the tariffs.

THE CHAIRMAN—(To Mr. Pitblado)—I am going to ask you whether any of your witnesses, Mr. Pitblado, were going to tell us about the elasticity of demand affecting prices of wheat products.

MR. PITBLADO—I do not think that point was considered.

THE CHAIRMAN—Some very important work has been done by the Economic Committee as it has been affected by the fall in price.

MR. PITBLADO—I don't know whether that would be coming out by some of the others or not.

THE CHAIRMAN—I did not know whether you had any witnesses to speak on that problem. This witness would say that the change in the price of wheat has an important influence on the demand? A.—Yes, sir.

Q.—The impression in Europe is that elasticity in the demand for wheat products is not very great. The average member of the working class in Great Britain would consume the same quantity whether it is relatively high or low? A.—Unquestionably, as far as the United Kingdom is to be considered. Their importations of wheat have remained just about the same.

Q.—Not very dependent upon price? A.—Yes, though to our great disappointment in Canada, they appear to be eating a poorer loaf of bread; that is, in the fall of 1929, I think, we had a bearish situation in 1928, and in 1929, the Secretary of the Agricultural Society at Washington had made the assertion that the price should be very much higher. Now, I commented on it at that time that there was no well informed merchant in the world who would not contend that $1.20 for wheat was a big price. But that carried on through. In 1929 we had a situation more favourable to wheat but very bullish in so far as Spring wheat was concerned. Now, we in Canada thought the man in Europe was going to eat just as good a loaf of bread as he was accustomed to and that to make that loaf he had to have our Spring wheat. As far as our firm were concerned, we had cables from Europe stating the amount the countries had to have there to meet the demand. However, there was an economic readjustment asserting itself and I am sorry to say we were not cognizant of it. It was asserting itself over in Europe before it was felt and that caught the sources of supply unawares.

THE CHAIRMAN—They were using a particularly poorer quality of bread? Meaning a less quantity of Canadian wheat? A.—I stand firmly on that ground that it is very much poorer.

THE CHAIRMAN—Well, I understand the point of view perfectly. An inferior wheat. A.—They were substituting a very inferior wheat for Manitoba wheat.

Q.—Would it be possible to say where it came from? A.—Well, they used more Argentine wheat especially.

Q.—I suppose it is too early to observe the bad effects on the British character? A.—Well, that is a thought we would like to correct as soon as possible.

Q.—Well, I will take your message home. I just want to close this particular portion by asking you if it is correct that you do think the elasticity of demand has considerable

effect on wheat prices? A.—Well, we have in my business always felt that the potato crop influenced the demand and we have watched the potato crop in Europe and particularly in Germany, that that is a factor in the European demand and has an influence on the price. As far as the United Kingdom is concerned they consume about the same amount every year.

THE CHAIRMAN—Yes, we must not judge market restrictions by purely grain conditions. A.—Yes, the consumption of breadstuffs has not been declining anywhere the last few years.

THE CHAIRMAN—Take Italy: Would there be a move between macaroni and bread? A.—It is wheat that makes the best macaroni.

Q.—You have got to go to the place where you get it.

MR. COMMISSIONER EVANS—And rye? A.—Rye in Germany.

Q.—And corn, in the Balkan States, they eat a good deal. Roughly isn't it a fact that the Continent of Europe produces a billion, eight hundred million (1,800,000,000) bushels per year? A.—I accept your figures.

Q.—If the continent of Europe imports practically five or six hundred million bushels in a year and deducting what of that would come from European countries there would be at least three to four hundred millions which would be exported of their billion eight hundred million, making two thousand million bushels of wheat. Now, if that is correct even a slight change might affect the demand if the consumers should drop off in their wheat consumption even for one day, such as a slice of toast or a slice of bread by one in every twenty or one slice of pastry for every twenty, then the demand of Europe would be diminished to the extent of 100,000,000 bushels and a 100,000,000 would have a very important effect on the world's prices.

THE CHAIRMAN—There is a change going on independent of the question of price.

MR. COMMISSIONER EVANS—Yes. There is a change going on and in so far as even saving crusts which has a very powerful effect on the world's market.

THE CHAIRMAN—It is such that the change in standard of life has an effect.

MR. PITBLADO—There are statistics available,, Mr. Chairman, as I understand, of the consumption; how much per person is being used in the United States. And I have heard it stated that in the United States it is much more so than it is here.

THE CHAIRMAN—Yes, in the matter of consumption we have a lot of statistics which reflect. I understand the ladies are eating less bread. Now, the present witness thinks that the European demand is affected by price and consumption of bread-stuffs.

By Mr. Commissioner Evans:

Q.—I would ask one other question. You refer to the demand in the United Kingdom. Mr. Richardson, when you said that the total amount imported by the United Kingdom was shown with some fair regularity, have you been taking into account increase in population? Has the demand in the United Kingdom increased in conformity with the increase of population that has taken place in recent years? A.—I haven't looked at that from the point of view of population, only from the point of view of importation in the United Kingdom.

By Mr. Pitblado:

Q.—I want to get you back to the question that you were starting to answer; a question that you put in this way, that when there is a bull market and the speculators have gone into the market on that side, who are the sellers. You started, but I think you have a number of other classes in that. The first one that you mentioned was the person who was holding cash wheat that had not been sold or hedged, and that was the farmer, and I think the way you put it was that the farmer largely in the country he sold on the hard spots; I wanted just to take you back to it, that when he then sells that grain the country elevator then immediately again hedges it on the market, that goes into the futures through a hedge? A.—Yes.

Q.—So that is a sale that gets into the futures market; the farmer sells the cash grain and the country elevator sells in the futures market the grain on hedge? A.—Yes.

Q.—So that is a sale then. Well then you were asked about the farmers taking advances, that is, getting an advance. Of course I needn't suggest to you that the advance is according as the farmer comes and wants a loan? A.—That is right.

Q.—There is no forcing a loan on the farmer by the country elevator? A.—Only as he requests.

Q.—And you stated to the Chairman that you would loan him up to a certain percentage of the value of the grain? A.—Yes.

Q.—Then you take as your security the tickets from him, I understand? A.—Yes.

Q.—That is, you take the tickets which represent the actual grain that is there? A.—Yes.

Q.—So you hold against that security the grain itself in the elevator? A.—Yes.

Q.—And you report that to your bank as money that you have advanced to the farmer on the security of the grain? A.—Yes.

Q.—That is, that grain is not hedged by the country elevator until the farmer again sells that; that is just held the way it is? A.—Yes.

Q.—That is, the actual grain is held with the loan against it, and it doesn't go into

the futures market until such time as the farmer sells it or the elevator company sells if the margin on it—if I may speak of it—is gone? A.—Yes.

Q.—Have you said all you wanted to say? A.—I would like to finish up.

Q.—Finish this first element that you have. I think you have two or three others. The first one is this long run of cash wheat coming. A.—I was going to add to that question, as to when there is a bull market and the speculators have come into the market, who are the sellers. The first seller is the farmer; he is the biggest speculator in the country, and always will be on account of the character of his business in producing wheat, he has to take risks, and he is the chief seller on the bull market.

By Mr. Commissioner Brown:

Q.—Have you got statistics showing how much of his grain is sold on track, sold at the elevator immediately it is brought in? A.—I think those could be made up; I haven't seen any figures.

Q.—Would you say the great bulk of it? A.—I say that he sells wheat every month in the year, and pretty nearly every day in the month, and when we get an advancing market, as we have the last few days, we wonder where it comes from; he is there to sell wheat all the time.

Q.—But the bulk of it is sold in certain fall months, the great bulk of it? A.—I haven't figures to give just what percentage is sold in the fall of the year. I heard my father, he used to say that the wise farmer was the farmer that sold his wheat as soon as he threshed it, year in and year out he made money, and as far as I can see I think he is pretty nearly right.

Q.—Our Grain Commission Inquiry indicated that fact, that the farmer who got into the market early was the best off; the farmers themselves don't quite understand it, and nobody seemed to be able to explain it. A.—There is no explanation of it.

Q.—The explanation may come out during this enquiry. A.—If we cleaned out all our wheat at the end of the year, and started in the new crop with bare boards, with the little appetite we have for the character of the new crop, if we have got to carry over it militates against the market very much, against the new market, against the on-coming crop, to carry over an old crop into a new crop, hurts the new crop far more than it benefits the old crop.

By Mr. Commissioner Evans:

Q.—Many of the millers in Europe prefer comparatively new wheat to old wheat, do they not? A.—They want to get the new wheat, and they want to see how it mills, and how they like it; perhaps they will like it better than the old year's crop.

Q.—Assuming they are of equal quality, doesn't it come to a point where they prefer new crop wheat? A.—I wouldn't say that. I know in many years we could sell old crop wheat at a premium; it is a long time past, but we used to be able to sell at a premium the old crop wheat, and we will again when it is scarce. The miller will pay 25 cents a barrel more for it; they want wheat, no question, and they want to run new crop wheat right away in full capacity. For the new run of wheat there is always some demand unless there is too much of the carry over of the old crop, and the reason is that it costs somebody's money to carry wheat. There is a misconception that wheat is always cheap in October, and it goes up steadily all the year round. It doesn't go up as much as the carrying charges are, and the man that carries the wheat for eight or ten or twelve months, he gets that much more money; it looks more on paper, but he doesn't get so much out of it.

THE CHAIRMAN—Q.—It is rather deceptive? A.—The ideal way is if the farmer is in a position to sell his wheat any day in the year that he thought the market was best.

By Mr. Commissioner Brown:

Q.—You know—I think it is generally known—that farmers in this country largely run on credits throughout the year until the new crop comes in, and the great bulk of farmers cannot hold their grain back; immediately it is put on the market they must sell to meet their obligations. Isn't that true? Isn't that a fair statement? A.—It is also true that at that particular period of the year the world looked to us to supply them with quite a large percentage of their import requirements, and that is the time of the year when we want to sell our wheat freely, because if we miss that market we have got such a bunch to sell later on.

Q.—But you are getting away from the point that I have put to you, as to whether the farmer does not, in the great majority of cases sell his grain in the early fall markets, and sell it on track? A.—I think there is a large amount of the wheat sold, of course, in October and November.

By the Chairman:

Q.—But if there is a bull market in February he has still got a lot left? A.—He always has some left when there is a bull market. He is one of the elusive speculators that we haven't been able to find.

THE CHAIRMAN—We are finding him now.

By Mr. Pitblado:

Q.—The fellow that holds till February he is the fellow that can afford to hold it? A.—Of course he doesn't always benefit by doing so.

MR. COMMISSIONER BROWN—No, he always loses, we have heard.

By the Chairman:

Q.—I asked the question yesterday about speculators coming into the commission houses on a bull market. Who were the corresponding sellers, who were the bears? A.—I started to say that the first fellow, and the most important man is the farmer.

Q.—Look at the financial economics behind that. The first to come along is the farmer, he is holding unsold wheat in his own possession, and he is attracted by the rising price that is reflected on the cash market, from this bull market, and he begins to sell this wheat, which is being bought by elevators at that stage, and they start to hedge? A.—Yes.

Q.—That wheat, when he offers it on the rising cash market, is bought by elevators? A.—Yes.

Q.—At any rate the buyer goes at once and hedges it, and that provides the counterpart to the bull market of the speculator? A.—Yes, part of it.

Q.—If when the farmer sells his wheat he is holding it at that time with the help of an advance from the elevators, all that happens is that the loan is turned into purchase price, and the farmer becomes in possession of money of his own? A.—Correct.

Q.—The elevator companies, however, have had an exchange of wheat for cash? A.—Yes.

Q.—And their balances at the bank begin to fall? A.—Yes.

Q.—And the balances of the farmers begin to rise? A.—Yes, sir.

Q.—Is it a fact that in a bull market there is an increase in farmers' bank balances and a decrease in elevators bank balances? A.—That would appear to be the logical thing.

Q.—It is the only way, it seems to me, in which the economics of the thing would work? A.—That sounds correct to me.

Q.—Supposing that it is wheat that he holds under advance, then there must be a very striking change in the transfer of cash resources in the banks from the elevators to the farmers? A.—Yes, sir.

Q.—And it would be a fair question to put to the banks as to whether that does happen in a "bull" market. It is the only way in which we can explain it. A.—I don't think there is any doubt but what they will answer in the affirmative.

Q.—And the banks, of course, can then finance the elevators out of the resources received from the farmers. A.—In the bull market in this country they all make money and they lose when it goes down.

Q.—I want to find if there is not an inevitable corollary, that there must be a transfer in the banks from the elevators to the farmers, and we then find that the elevators are going to the banks for larger advances, and they are being made out of the resources of deposits provided by the farmers.

MR. PITBLADO—I think that the farmers, as a rule, owe a lot of money around the country to the storekeepers and everybody else.

THE CHAIRMAN—Instead of having larger balances he discharges some of his debts.

MR. PITBLADO—Yes, I think it takes most of his money to do that.

THE CHAIRMAN—It seems as if everybody would allow the farmer to owe them money until there is a bull market and he can get out and pay them.

MR. PITBLADO—I don't think there is any such suggestion as that.

WITNESS—Did I imply that?

MR. PITBLADO—I think the suggestion is that the country merchants generally have to wait a year until the farmer gets the money in, in the fall, and that is roughly what turns out, and then they get their money when he sells.

MR. COMMISSIONER EVANS—Or when he borrows.

THE CHAIRMAN—Doesn't that amount to this: A bull market started by the speculators enables an enormous amount of liquidation to take place in all the farmer's finances? That is the first thing. A.—All those farmers who are still holding wheat will benefit when they advance, no doubt about that.

By Mr. Pitblado:

Q.—You are still talking of the first one of those sellers. They are the farmers. A.—I think in general conversation I have covered most of the other points. The first one who sells that way is the farmer. And secondly, there are sellers who have bought at lower prices and who are anxious to take profits; a certain amount of those people in the market all the time, fellows who have bought at lower prices; they are there as sellers, people who have bought at lower prices and are anxious to take profits.

By the Chairman:

Q.—Bought wheat or bought futures? A.—Futures; primarily futures, and particularly if the advance in the Winnipeg market has been more rapid than the advance in Chicago, Kansas City, or other markets, then the millers, spreaders, and professional traders might buy wheat in their market and sell wheat in our market, figuring that sooner or later the relative values between the respective markets would again assert themselves and they would derive a profit.

THE WITNESS—Supposing we have a frost scare out here, and our market runs away up, and nobody wants to sell any wheat, if the Kansas City wheat, or Chicago wheat, or Liverpool wheat has not advanced very much, and they think that the damage has existed here, they will buy wheat in their market and sell wheat in our market, figuring our wheat has advanced too much, and relatively their wheat will have to come up, and our wheat will have to come down, and out of the transaction they will derive a profit. There are people who make a business largely of professional spreaders, and they exert an influence of keeping these different markets more or less in line with each other.

Then there is the grain, as I said before, which is being purchased continuously throughout the year. The regular hedging of new grain purchased day by day is also taking place, and these hedges always form part of the sales that are made in the bull market, and then again there might be unsold stocks on the ocean, or merchants might have unsold stocks of Argentine or Australian wheat, and he might wish to take advantage of the advance in the Winniipeg market to make sure of his profit, and hedge his cash wheat regardless of the position in which it might be. There is a little bit of Argentine and Australian wheat hedged in this market. I don't think myself it has a very great part in the market, but there is a certain amount.

By the Chairman:

Q.—Do I understand you mean part of the increase in speculation in the bull market here may be accounted for by unhedged wheat coming in to be hedged in this market from other sources? A.—Yes.

Q.—That is a very important factor? A.—Yes.

Q.—Are there any statistics available on that? A.—I don't think it would be possible to trace it. I say I don't think the Australian and Argentine hedges in this market are very important. They are hedged more in Liverpool.

Q.—Have you any idea whether the proportion of physical wheat from the Argentine unhedged at any particular time is great? A.—I would think very great.

Q.—So there is a very considerable possible source of supply on new hedging to take place? A.—I do think there is a farmer, a producer, who gets a very raw deal and that fellow lives in the Argentine. They haven't got the facilities and organizations that we have set up here to trade with, and not bought on the same margin of profit. They haven't got the particular market we have here.

Q.—Are there any statistics to show whether the prices received by the producers in the Argentine fluctuate more than the prices received by the producers in Canada? A.—I haven't any statistics.

Q.—That would be an important fact bearing on our argument? A.—Yes.

By Mr. Commissioner Evans:

Q.—There is really no primary cash market in the Argentine as there is here? A.—No, the system they work there is quite different from what we operate on here. The merchant there has to go to work and sell a lot of wheat abroad at whatever he can get for it, and then he buys it in at whatever he can get.

Q.—The exporter would have to buy right direct from the producer, who has perhaps financed him from the previous autumn? A.—Yes, the financing of the crop is tied up very much in the merchandising of it.

By Mr. Pitblado:

Q.—Have you exhausted your list. You are coming to the unsold stocks on the ocean in Argentine or Australia? A.—Yes, there wasn't anything else other than I might volunteer something on who the elusive speculator was.

THE CHAIRMAN—Are you cross-examining on that, Mr. Pitblado?

MR. PITBLADO—Yes, that is a professional trader. What about him?

MR. COMMISSIONER BROWN—Can you find him at all?

MR. PITBLADO—I think we can suggest where he is.

MR. COMMISSIONER EVANS—Just before we start on that would it not be well if we had before us someone in addition to an exporter like Mr. Richardson, here who would represent in this market some European importers or other exporters, to get some evidence as to the extent to which wheat is hedged on stages beyond our primary market stage.

THE CHAIRMAN—On the general point this witness has given us valuable evidence as to the behaviour of a number of different people. I would like to have in evidence those people themselves to see if they recognize their own behaviour.

MR. PITBLADO—The great difficulty about that is this, Mr. Chairman, you are going into a man's private business. He is not going to tell you what he does or doesn't do. It is a very difficult thing to get. I don't think I can get Mr. Richardson to tell you here openly how he is working certain lines of business. They are all in competition with each other. Take for instance, the first man, the farmer selling on bulges. We can tell you that from the elevator companies, we can bring them all back to you and ask them before you if what Mr. Richardson says is true.

THE CHAIRMAN—Can you produce a farmer who will tell us what he has in fact done?

MR. PITBLADO—We could produce farmers. We hadn't thought of getting them.

But there is no doubt about that. The elevator receipts show that, the orders show that, the letters show that.

THE CHAIRMAN—Mr. Evans' question bears on that point.

MR. PITBLADO—On the second one, we did have yesterday Mr. Fisher here who hedges on this market, not necessarily only grain that is bought here at all, but for his Scottish Co-operative over there. If there are any others that come along I don't think you could get any mathematical view about the thing, but if you start to go into a man's private business and say to him, What is that? We can get, for instance, here before you a man who calls himself a spreader. Mr. Richardson defines what he does. The end of the transaction, and the particular time they do something is hard to get.

MR. COMMISSIONER EVANS—We have had evidence now that in the primary stage between the farmer and Fort William there is at all times a substantial quantity of unhedged grain. We might not be justified in concluding only that proportion of Canadian grain is hedged at any time, because even the grain that the Pool sold which is not hedged in the primary stage might by the purchasers at the other end all be hedged before it gets to the ultimate consumer, and might therefore depend upon the hedging market, and it was those who would represent those later stages beyond the primary market stage.

THE CHAIRMAN—They will be additional people coming in at a time like this.

MR COMMISSIONER EVANS—Yes.

THE CHAIRMAN—You haven't passed away from the notes of Mr. Richardson?

MR. PITBLADO—No.

By Mr. Pitblado:

Q.—You come down finally to the last one, say the speculator or the short seller, is that an element then in this bull market also? A.—Yes, there is also the man who simply takes a speculative position on the market.

Q.—And he is there? A.—He thinks he will make money by selling it and buying it up cheaper.

THE CHAIRMAN—That is the man we want to see.

THE WITNESS—He is not very important.

THE CHAIRMAN—He is not very important?

MR. COMMISSIONER BROWN—We thought he accounted for most of the futures trading? A.—No.

By the Chairman:

Q.—You told me most of the bull speculation is accounted for by new additional hedging, but there is a little balance due to a bear speculator? A.—I say most of the trading represented on the board is backed by real wheat, and by transactions that the trades in wheat make desirable. But there is also the position, and our machinery is primarily set up to facilitate the handling of the crop on grain that we buy back in the country, that is not available and can't be got into Fort William or to the seaboard perhaps in two or three weeks, and sometimes a month or two months' time, and it wants to be realized on, and the only way they can deal with it for future delivery is to sell it for delivery at the market, when time and transportation facilities permit of getting it there. That is the basis of our contract. But our machinery has been set up to facilitate the merchandising of this crop, and it permits of a free play of opinion in the market, and there are certain speculative influences, people who figure that the wheat market is going up, and who want to buy wheat, and people who feel that the market is going down, and they want to sell wheat, but what I would like to emphasize is neither of those people make the market. They do not make the price level. Their trading does broaden the market, and it provides us with a great facility of getting in and getting out, but their operations do not make the market.

Q.—They do not determine the price? A.—If they gauged the future accurately and think there is going to be an increased demand for wheat, and that the market is going up, and they buy wheat, they are going to make profits, and if they gauged the fundamental situation incorrectly they are going to lose, but their operations on the volume of wheat in this country, and the volume of wheat in other parts of the world, that when you get wheat at too high a level running an artificial bull market, you would get hedges from all over, and we have got to sell our wheat for export, and it would simply have to come down where it could be sold with other wheat, and unless there is a serious crop damage here or elsewhere that would enable us to sell our wheat at higher prices. Then any effort to advance prices would be futile, likewise an attempt to sell our wheat short. If they sold that wheat, and pounded that wheat down below other wheats in the world, all the buyers in the world would buy enough of Winnipeg wheat until Winnipeg wheat advanced up until it got out of line with other wheats, and somebody else could sell wheat. This operation of going in and making world prices in wheat is something there is not one man nor any group of men can make. They may temporarily influence it for a few days.

By Mr. Commissioner Brown:

Q.—For how long? A.—They soon get a load on their back that they can't walk away with.

Q.—How long could they stay in the market on short selling? A.—As long as they could put up the money.

Q.—As long as they had the finances? A.—As long as they could put up the money to margin their wheat. But the fellow, the short seller, he is a potential buyer. He has to go in at the right time to buy it. You must remember another professional trader, just as sharp as he is, and if he sells wheat down too low he will buy it from him.

Q.—But apparently statistics from Chicago market would indicate that some of these large speculators that you speak of do manipulate the market over a comparatively short period of time, but over weeks, that is, they depress the market? A.—They have attempted to do both in Chicago.

Q.—And succeeded. I mean, statistics would appear to indicate that they have succeeded.

MR. COMMISSIONER EVANS—Do the statistics go any further than there might appear to be a coincidence for a certain time, and its cause and effect has not been determined, whether those may not, who are on that side of the market, guess correctly what the true trend at that time was?

MR. COMMISSIONER BROWN—You have to draw your inferences from the facts, but the inferences seem to have been reasonably drawn from the facts.

THE CHAIRMAN—The great difference is whether you guess correctly about what is going to happen over wheat, or whether you guess correctly what other people are going to guess.

By the Chairman:

Q.—Is that not the difference? A.—Yes.

Q.—That is where the speculative element unconnected with wheat comes in? A.—Of course, the public today primarily are all interested in the buying side. I have seen so many times in the market. I have great confidence in the open market, because I have seen times when everybody felt the bottom was going to drop out of it, and buying always comes from some source, and the market functions, and everybody said it is a wonderful market. You can always trade in this market.

By Mr. Commissioner Brown:

Q.—So your opinion holds that the open futures market fairly well reflects the actual world conditions? A.—I don't know how it could be done better, or how you are going to do it any better.

Q.—It may not be for a certain short period of time, due to aggressive short selling on the part of the big fellow? A.—The fellow who does that, somebody takes his place. It is not a profitable life time occupation.

Q.—You say he suffers in the end? A.—If he can be so accurate that he is always right, the worst thing that can happen to him is that he should be right and be over-confident.

Q.—And do it again? A.—Yes.

Q.—And that applies to the farmer anyway? A.—I was going to say in this market today you have a lot of people—our wheat is relatively cheap, our wheat of high grade quality is very cheap, but there is not in the world a great deal to induce anyone to buy wheat, but there are lots of people buying wheat the last several days, in the belief that wheat is cheap, and that crop damage will develop some place; that something will be done with the reparations, or the tariff in Europe will be lowered, or that France or Germany will allow a larger admixture of foreign wheat into their home production, or something will develop to bring about a higher price, which they regard as a more reasonable return on the cost of production to the farmer, and those people are buying that, and they are buying that wheat largely on the unknown, what is going to happen, that something will happen. They may be right or wrong, but there are always people willing, always a certain number of people willing to take those chances, and while they say there is very little speculative interest in wheat today, that is true, but if something happened to make wheat look attractive it would be very surprising where the speculative interest would come from, it would come from all over the world.

By the Chairman:

Q.—It is just as important to the speculator to think, not of what the actual facts are, but what other people are going to think about them? A.—Yes.

Q.—But finally, generally speaking, what the facts are? A.—Yes.

Q.—If he gets out before that is found out he is all right?

MR. COMMISSIONER EVANS—He is all right.

THE WITNESS—Any commodity like wheat that can be produced all over the world, where the binder is going in some field every day of the year, cutting a crop, a commodity affected every day in the year by conditions of growing, crop conditions and general economic conditions that are steadily changing—the growing crop used to be our primary consideration, and anything happening to the growing crop, up went the price. Now, we have gone through a situation where the position of the growing crop has not been so important as general economic conditions. Our letters from our European connections for the last year, where they used to ordinarily refer to lower crops in certain countries, and the possibility of doing a little more business with this country, and a

little less business with some other country, now they do not pay much attention to that any more, because there is plenty of wheat to go around. These letters appertain mostly to political conditions in their own country, to general world economic conditions, and to Russia. Those are the matters on which our foreign correspondents exchange views with us. Because they are more important than a little increase in the wheat production, or a little falling off some place, although, of course, crop conditions and the growing crop is still a very important factor, in so far as getting a better level of price is concerned.

By the Chairman:

Q.—We want to get back to your succession of new bears, but before we do so, would it be a fair summary of what you have been telling us to say that the world's wheat markets are so interrelated that you could not have speculation of a striking kind in futures in a particular market without having rapid reactions on cash wheat and unhedged wheat in all the markets? A.—That is right.

Q.—Supposing we were to discover in any particular market, Chicago, or somewhere, some objectionable feature in speculation, with which we should try to legislate or prevent, unless you did it in all the markets it would tend to be of no value, is that not so? A.—I think so.

Q.—That is, can you correct a false speculation in one market, and achieve your result unless you are at the same time able to do so in all markets? A.—No.

Q.—Anybody who finds fault with a particular speculation in a particular market is not able to do very much unless he can correct that same fault everywhere? A.—That is right. I do not maintain our machinery in the futures market is perfect, but I do maintain it is very necessary to set up some kind of machinery to absorb the shock of price readjustment in a commodity like wheat, grown all over the world, changing conditions affecting it not only week by week, but day by day.

Q.—May I come back to the second of the bears. We had a good look at the first one, but the second one we hardly saw at all. When you have a bull market, I ask who are the people coming in to support it on the other side? You have dealt with the farmers' unhedged grain. The second one is someone who holds a future at a low price tempted by the price to sell it. I was looking for the additional people who come out on an additional quantity of futures trading on the bull markets. It doesn't help me to talk of existing futures and merely changing hands, that doesn't account for the additional trading. A.—I just illustrated him as one of the sellers, not the more important one.

Q.—It is true he is a seller, but he is only a part of the existing situation. He doesn't account for the superstructure of new speculation? A.—No, the burden of that is, I say, firstly, the farmer and the miller in the east, and the merchant, and there is always while the country elevators and the general grain trade pursue a policy of general hedging of their business, they do not all hew to that one hundred per cent. Some of them employ a little latitude at times, and there is always a little wheat, the sum total of that that comes out from those people, and then there is wheat unhedged on the ocean, and unhedged in Eastern Canada, and unhedged on the prairies, and then there is the outside trader who wants to hedge foreign wheat if he is long.

Q.—All those parties are of importance, and I think we are very impressed by that possibility, but I think your second one hasn't much bearing, I think he is merely changing hands on the existing substratum. A.—I simply listed him as one of the sellers.

MR. COMMISSIONER EVANS—He increases the activity of the market.

MR. PITBLADO—His dealings go through and form part of the dealings in the Clearing House.

THE CHAIRMAN—They are part of the activity, but they do not account for the additional speculator.

MR. PITBLADO—But they do account for the additional quantity of wheat that appears in the Clearing House as having been traded in on the market, as having gone on the market that day. That is, so far as the Clearing House is concerned that is exactly the same as if it came from the country, by showing that volume in the Clearing House.

THE CHAIRMAN—That is not quite my point. Supposing you have an existing hundred as your existing volume. I come in as a completely new speculator on a bull market. Mr. Richardson met me by my additional demands in speculation by giving me a person who was selling unhedged grain, a farmer. Now, rule him out. I come in again with another market. It is no good meeting me with somebody who is merely changing hands on futures, in the first hundred, I must have an additional quantity of grain or an additional speculator. A.—You just take his place, Mr. Chairman.

By Mr. Commissioner Evans:

Q.—Do you recognize the speculator in the market? A.—Yes, sir.

Q.—Would you expect some to entertain the opinion that prices might go down, or were keeping too high when they were rising. That is, would you not naturally expect more people to take the bear side on a rising market because wheat has been at this level? Now, it is keeping here. If that is not in accordance with their judgment wouldn't you naturally bring in your bear speculator to offset?

THE CHAIRMAN—I think so. He is the person I am looking for as well. He has been acknowledged to exist, but he it not very big. A.—He sold that lower down, and he is there buying it back at that time. He is one of the bulls. On the advance he is a

bull. He was a bear when it was lower down, but on the advance he is one of the buyers. But there might be some short selling. When I listed the trader who is already long, I just listed him in answer to this question, when there is a bull market, and the speculators have come into the market, who are the sellers? He is a seller, but the buyer simply takes his contract over from him, but it is not a new contract.

Q.—Tell us who is the other one? A.—I mentioned the third one was the professional spreader, who bought wheat in other markets and hedged it here. If he thought our market had gone up two or three cents, and Chicago, Kansas City had only gone up a cent, he bought wheat in their markets and sold it here, with an idea we would get a little hysterical up here, and relatively that was on the difference in the wheat he bought.

Q.—You reduce the quantity of hedging in some other market by transferring part of the hedging here? A.—Yes.

By Mr. Pitblado:

Q.—May I ask about spreaders, just to make clear? The statement has been made that spreaders are neither bulls nor bears, but that they work for parity of price, is that your view? A.—That is my view.

Q.—That is, they work for parity of price as between markets? A.—Yes.

MR. COMMISSIONER EVANS—Or between months?

Q.—Yes, I was going to take first between markets. Then you have spreaders who watch the relative prices between months, have you not? A.—We have spreaders who watch the relative prices between months too.

Q.—And they then work for a parity or similarity of prices between the months? A.—Yes.

Q.—A statement has been made that the operation through spreaders was a check on both bear and bull raids on particular markets. Do you agree with that? A.—I agree with that.

Q.—That is by this watching the market? A.—Yes.

Q.—And there are spreaders on the Winnipeg market, are there not, spreaders operating here? A.—Yes, sir. On that point the short seller who went in to pound his market down, supposing he took that view in mind, well, there is a spreader some place else who will buy that wheat from him and sell it in some other market, and is prepared to wait until he delivers it to him, until the relative values assert themselves, and to counteract, he is one of the people who counteracts the influence of anyone who is trying to manipulate the market.

By the Chairman:

Q.—Who was your fourth? A.—I then just mentioned there was grain being delivered by wagon-load lots every day in the country, and being sold to the country elevators, and which he was hedging every day in Winnipeg, which formed part of his selling operations every day, and it was effective in a bull market or any other kind of a market.

By Mr. Pitblado:

Q.—Constant hedging going on while the grain was being delivered? A.—Yes.

By the Chairman:

Q.—He is one of your sellers but he is not one of the ones I am looking for? A.—No. And the other one was grain in Eastern Canada or on the ocean, or in any position that might be sold.

Q.—Couldn't I summarize it this way, when you have an active, speculative bull market, the other side of the account is matched first of all by the unhedged grain coming into a hedge from all kinds of positions, from the farmer, from the ocean, all kinds of quantities of wheat being hedged that wasn't formerly hedged? A.—Yes.

Q.—And secondly, it brings in unhedged wheat from other markets? A.—Yes.

Q.—That also brings wheat? A.—Yes.

Q.—The next one is that it transfers actual hedging from other hedging markets to this hedging market? A.—Yes.

Q.—And lastly the balance is made up by a genuine bear speculator, we don't know how big he is, he helps to make up the balance in the bull market? A.—Yes.

Q.—Those are the four ways in which we can account for the other side of a speculative bull market? A.—Yes. Of course, the bear sells wheat on the expectation that it is going down, and if it goes down he takes a profit, but if it goes up he takes his loss. He runs quicker either way.

Q.—You mean bears can run quicker than bulls? A.—I think the bear has the advantage, yes.

THE CHAIRMAN—Will you go on, Mr. Pitblado.

By Mr. Pitblado:

Q.—Your view, as I understand it, about the bear speculator, is that he didn't dominate the market? A.—Yes, I maintain that he is only incidental to the market, that he doesn't make the prices, he doesn't make the price level.

Q.—Coming back a little to just see what a merchandiser like yourself would do, you, I believe, have correspondents all over the world? A.—Yes.

Q.—Do you get cables from them? A.—Yes.

Q.—It is too late, I imagine, to get letters? A.—We have 67 cable correspondents, and we get cables from sixteen firms every day in the year, whether anything happens or whether it doesn't. We never send less than sixteen cable letters every week, that is the main correspondence.

Q.—That is to places outside of Canada? A.—Yes.

Q.—Then do you keep up your cabling and telegraphing with your eastern points all over? A.—Yes, we have instant communication with the seaboard on our own system.

Q.—You have your own wire system? A.—From coast to coast.

Q.—You have your wire system from here to both coasts? A.—Yes.

Q.—You are in constant touch with your agents; by the way, you have agents at Vancouver too? A.—Yes.

Q.—And you are in constant touch with your agents all over? A.—Yes.

Q.—That is for the purpose of merchandising grain? A.—That is for the purpose of merchandising grain.

Q.—And you try to keep in touch with conditions in foreign countries, and conditions in our own markets here? A.—We try to, yes.

Q.—And you watch that every day? A.—We try to.

Q.—There was some mention made, Mr. Richardson, that I hadn't an opportunity of seeing there, that you may quote a price to the Old Country every night and go into the market and buy it. I did not just catch what that was? A.—I was just mentioning the use we make of the market, the facility with which we are able to get in and out of the market. We frequently might feel that we had prospective business immediately in sight, and we might buy our grain in anticipation of doing business, and if the business did not materialize we sold it out again with a feeling that we couldn't lose much. We might be a quarter of a cent in, or a quarter of a cent out, but we wouldn't be very far out, and we feel we have that protection against offers outstanding. I am just showing part of it. We use this market in so many different ways, we could step in and out so quickly, and that enables us to work so closely on our offers.

Q.—The illustration you were giving was you would quote a price to the Old Country which might be accepted even before you had the grain knowing you could step in and get the grain. You might have to pay a little more for it, but the market was right available for you to get it? A.—Yes.

Q.—And you have used the market in that way? A.—Yes, if nobody in Winnipeg would sell it to us at last night's close, somebody in Kansas City, Chicago, Liverpool, or somebody would sell it to us in this market. There would always be somebody who would sell it for some reason or other.

Q.—That is you know the futures price on that day, and you would sell it on that basis, knowing you can probably get the grain if you make a contract? A.—Yes.

Q.—You mentioned you had a large export business? A.—Quite a large export business—I would like to.

Q.—That is done on a very small margin. You used in your statement, I think, a fraction of a cent? A.—Yes.

Q.—Is that the basis on which you are operating your export business? A.—That is the basis on which I am operating my export business.

Q.—If you can make a fraction of a cent you are quite satisfied? A.—Yes, depending on our turnover in that. Sometimes we make a little profit, and sometimes we lose a little when we are working too close, but we aim to have a profit accrue to ourselves. That is what we aim to try and do, but it is small in many instances.

Q.—There is, Mr. Richardson, as we know, Pool grain that has not been hedged, a large quantity of grain that has not been hedged, but on this system of selling that is here now, supposing cash grain is sold by the Pool, can you say from your experience whether the Pool then on delivering the cash grain takes back the hedge that is out against that future, such a heavy hedge out, by the person who takes it? A.—Yes, if they had a hedge out they would take it back. That would be their practice, I would think.

Q.—Do you know whether that is done with that kind of grain? A.—I know it is sometimes done. It is the general practice of the trade.

MR. PITBLADO—In that way the Pool, while not having hedged grain in the futures market would when selling cash grain become a holder of long open contracts in the futures market? A.Yes.

MR. PITBLADO—I am not saying anything, Mr. Chairman, that is not public property because that has been publicly discussed when the Pool legislation was before the Legislature.

THE CHAIRMAN—Does that mean that when the Pool buys grain that is hedged they take over the hedge?

WITNESS—Yes.

MR. PITBLADO—The Pool, in that sense, does not buy, but when they buy grain that is not hedged they take over the contract from the man who hedges himself, in the expectation of getting the grain. They would in that sense be in the market with a futures contract. That is the statement which has been made in the Legislature, and again I

am not stating anything that has not been made there: that they did go into the market voluntarily and bought grain in the futures market and which helped to raise this volume that we are speaking about of this grain. If it is material, I think the Pool ought to be called before you and asked about that.

THE CHAIRMAN—I will discuss it with my colleagues.

MR. PITBLADO—I might mention in the selling of cash grain by the Pool today that system is in use, so they take over these future open contracts from the person from whom they buy. That is working today. I want to know from Mr. Richardson if that is the case, because the statement was made in the Legislature that that is being done.

Q.—If that is done, then the Clearing House would have a record of that transaction to swell their volume? A.—Yes.

By Mr. Sweatman:

Q.—Tell us what you mean by open futures contracts? A.—That is the amount of futures that have been sold in Winnipeg against wheat that is back in the country; that is open until such time as the actual grain is delivered to the buyer.

Q.—Taking May for example, you could not tell what open futures contracts with May were till May arrives? A.—There is a record now in the Clearing House of the total position of trades in May wheat. There are the numbers of people who sold it and the numbers of people who bought it.

Q.—They are both equal? A.—Yes, they are both equal.

Q.—What do you mean by open? When do you find out whether they are open or not; not till the month arrives, do I understand? A.—They are open trades now in the books until such times as the actual delivery is made, until they are closed out with the actual delivery of the wheat. When we come around to May, the man who has got the wheat to sell, when the wheat arrives in Fort William he goes to the Clearing House: He says, I am short twenty May wheat and I want to make delivery of it and the man at the Clearing House looks at the oldest trade and he says you delivered ten thousand to so and so and ten thousand to somebody else. They just invoice that wheat at the close of the Clearing House, the night before, and that trade is liquidated, but that trade is open in the books till it is liquidated, until the actual delivery of cash grain or until it is liquidated by a transaction in the pit.

Q.—Prior to the month of May, would there be a large volume of trading that would be switched in other months and closed out in that way? A.—Yes. Prior to the month of May a lot of that would be sold.

Q.—Switch hedges in futures—speculators who did not want to deliver this grain would switch to a different month? A.—Yes.

THE CHAIRMAN—You close one lot to open another? A.—Yes.

MR. SWEATMAN—At the close of the market each day the Clearing House having all the trades that have taken place in futures of that day they can tell what the open trades were at the close of that day and in any one market? A.—They would know.

Q.—That is after the transactions have taken place in the pit or amongst the members in regard to futures at the close of the day there are a certain number of bushels that certain people have contracted to sell and certain people have contracted to buy, and these are what you call the open trades? A.—These are the open trades. The Clearing House must have that because they keep that record of the market, and that grain is adjusted to the market every day.

Q.—He mentions something about the security for carrying out these trades being through this economical futures market. The machinery of your futures market provides for the contingency of enabling you to get delivery? A.—Yes.

Q.—And that is by virtue of the fact that the Clearing House calls for daily markets and keeps up the security to those who have these contracts? A.—That is correct.

MR. COMMISSIONER EVANS—And the Clearing House also undertakes financial responsibility themselves for the trades that go through? A.—That is what I want to make clear, that selling grain, particularly for two or three months ahead, if we buy wheat from 150 farmers, where we are working on a fraction of a cent, in case it went up four or five cents and we might not be able to get our grain, but that trade is given the Clearing House and that is adjusted with us every day at the market, so we can work very closely with the assurance that we are going to get our grain. We bind ourselves with confidence that we will get the grain which we purchased on our part.

Q.—Have you known of a case of the Clearing House having failed to deliver? A.—Never known of it. Of course, in the old days, when we used to have to keep up enough margin, when the market went up we had to arrange with the Board of Trade and we would call on the other fellow to deposit so much money in the bank as a guarantee that he could deliver us the grain. It made an enormous amount of work and did not give us anything like the satisfaction that we have with the present system.

THE CHAIRMAN—We would like to thank the witness for the great help he has given us this morning.

Have you any further witnesses who could throw light on the actual proportion of the total which in any position is unhedged? From the evidence of the witness we learn it is 50% of what is in the country elevators at any time, but that does not tell us what that proportion is of the total grain in existence at any particular time, for particular months in the year, because I imagine that would be a very fluctuating figure.

MR. SWEATMAN—I do not know if that is available or not.

Q.—The figure is exclusive of the wheat owned by the Pool? A.—It is exclusive of the grain in the Pool elevators. Line elevators also take in Pool grain and I would want to ascertain that accurately whether Pool grain is included or not.

THE CHAIRMAN—There is a further point in this morning's evidence. Is there anybody who would tell us anything about, or give us any views about, the elasticity of demands on different prices in the consuming market?

RICHARD STANLEY LAW (called).

Q.—What position do you occupy? A.—President and general manager of United Grain Growers' Limited.

Q.—Will you tell the Commission just shortly something about that company? A.—Mr. Chairman and gentlemen, I have prepared a very brief summary outlining who we are and how incorporated, if you care to have this filed, and I will briefly touch on the main points here.

THE CHAIRMAN—That will be Exhibit No. 11.

(Marked Exhibit 11.)

WITNESS—Mr. Chairman and Gentlemen of the Commission, I want at the outset to say that in appearing here I expect to add very little to the information which you have already secured from the witnesses who have already appeared before you; but I thought perhaps in view of the fact that our company is somewhat unique in its constitution, that is, it differs very materially from the set-up of those companies operating line elevators whose representatives you have already listened to, that perhaps a statement from us on that account might be of some value. I know your time is short. I have prepared this statement and if I just run over it the main facts I want to bring out will be quite evident to you.

United Grain Growers Limited is a farmers' grain company, organized in 1906, and since 1911 has operated under a special charter created by an Act of the Dominion Parliament. Under this charter and its by-laws, no one may acquire shares who is not a farmer or the owner or lessee of farm lands.

There are more than 30,000 shareholders. The paid-up capital stock is approximately $3,180,000, with a general reserve and surplus of nearly $2,500,000.

The capital assets of the company are shown on the last balance sheet at over $11,000,000, and it has issued bonds to the par value of $4,500,000.

The company owns 466 country elevators located in the provinces of Manitoba, Saskatchewan, Alberta and British Columbia.

It also owns and operates a terminal elevator at Port Arthur with a capacity of 5,500,000 bushels. At Vancouver, B.C., it operates, under lease from the Vancouver Harbour Commission, a terminal elevator with a capacity of 1,600,000 bushels.

The grain business of the company comprises:

1. The buying and selling of grain.
2. The selling of grain on a commission basis for farmer customers.
3. The warehousing and forwarding of grain.

Method of operation—At each of its country elevators the company is always ready to purchase grain from farmers, thus providing the benefit of a constant cash market for grain at country points. That this is of great value to them is shown by the fact that a large percentage of the company's customers do sell their grain at country points in spite of the fact that they may forward their grain to terminal elevators to be stored or sold for their account, if they so desire.

It is the practice of the company, as grain is bought in the country, to make hedging sales of equivalent quantities in the futures market, thereby securing protection so far as possible against falling prices. The grain purchased in the country is generally forwarded to the company's terminal elevators at Port Arthur or Vancouver, and sold by the company out of such elevators. At the time of sale the hedge is closed out by a purchase in the futures market, usually from the party to whom the cash grain is sold as part of the contract for sale. To a more limited extent and depending upon circumstances, the grain may be carried by the company until date of delivery on the futures contract and delivered through the Clearing House.

It is on the basis of prevailing prices in the futures market that the company's daily price lists for street grain in the country are made up, and the insurance against loss which the company obtains through hedging enables it to buy this grain on a very close margin. A large percentage of the value of grain so bought is provided by the banks, who make it a condition of lending that the company must protect itself by sales in the futures market and they require the company to furnish regular statements showing that this practice is being carried out.

Without the hedging system it would be impossible for this company to pay farmers as well for their grain as is now the case. In the absence of constant and reliable quantities for future delivery it would be difficult to arrive at a satisfactory basis for daily prices in the country. Current cash prices do not provide such a basis since much of the grain purchased in the country must be carried for many months before it can be delivered for sale. The danger of loss from falling prices would make it necessary for purchases to be made on a wide margin, in order to build up reserve against losses. The business of buying grain would be so speculative that the directors of the company

might, quite possibly, be unwilling to risk the shareholders' money by engaging in it to any considerable extent, and the buying of grain in the country might fall into the hands of those persons only who would be prepared to take large speculative risks. Under such circumstances it seems inevitable that farmers, in selling their grain at country points, would receive a smaller proportion of its value on the central markets.

In addition to buying grain in the country, this company also buys large quantities at its terminal elevators. Such buying is dependent upon the company's ability to make hedging sales of such grain in the futures market, and is an important contribution to the maintenance of a constant cash market for grain of all kinds and grades at terminal points. Without the hedging market the holding of cash grain in terminal elevators would involve heavy speculative risks, which might cause this company to discontinue such business, or permit it to engage in it to a very limited extent, and only on a price basis that offered the possibility of large gains to make up for inevitable losses. Such a condition, it appears to us, would tend to lower prices for cash grain, and to the creation of dangerous conditions in the market whenever the supply of such grain was in excess of the resources or the requirements of the buyers.

As commission merchants selling grain for clients, we are interested in having a broad market for grain upon which we can dispose of customers' grain whenever we receive their instructions to sell. Our experience has led us to the belief that the existence of the futures market trade to the maintenance of such a market, without which it might, at times, be extremely difficult and perhaps impossible to sell the grain.

As warehousemen we store large quantities of grain in country and in terminal elevators for farmers, who are prepared to hold their grain in the expectation of a more favorable market. We advance money to farmers on grain stored with us and the existence of the futures market enables us to make such advances with safety, whether the grain is in the country, or at the terminal elevator. Without the futures market and the assurance it creates of a market upon which grain can be instantly sold, we should either have to give up entire the making of such advances, or severely limit the amount advanced.

The experience of this company in handling grain now extends over 25 years. It was established by farmers with the object of improving conditions in the sale of grain, and their object has been steadily kept in view by its shareholders and directors. During that whole period there has never been a time when the recorded opinion of its shareholders or directors was adverse to the existence of a futures market for grain. The existence of such a market has always been regarded as a necessary part of the machinery for the satisfactory handling of the western crop. It is still the considered opinion of the board of directors of this company, based on experience, that a market in grain futures is of great value and a necessary part of our grain handling machinery.

Mr. Chairman, I tried to keep this statement as brief as possible on the short notice I had to prepare it, but it goes on record as the opinion of our directors on this question of the value of the futures market.

THE CHAIRMAN—Your shareholders are all farmers, or practically so? A.—They are farmers or owners of farm lands. I have here a copy of the charter of our company. I will file that with you if you care to have it.

(Marked Exhibit 11A.)

Q.—You are not merely a co-operative society in which you are dealing only with your shareholders' grain? A.—No.

Q.—Insofar as there are advantages to be obtained from the operation of your company they are obtained by other farmers than your shareholder farmers? A.—Yes.

Q.—Now you told us that you store large quantities of grain in terminal elevators for farmers who are prepared to hold their grain in anticipation of a more favorable market? A.—Yes.

Q.—You advance them money? A.—Yes.

Q.—But you do not require them to hedge. A.—No, when we advance the money we take into consideration the state of the futures market at the time of the advance.

Q.—You would not say the farmer who wants an advance on the grain he is storing with you must hedge, but you adjust the amount of the advance to the total price? A.—Yes.

Q.—To cover yourself in the risk? A.—We adjust it to the prevailing price.

Q.—Have you any general standard of limit of the advance? A.—It is usually around sixty per cent, I think, of the then prevailing price.

Q.—So that in ordinary times it is possible to carry on business successfully by advancing up to sixty per cent on unhedged grain? A.—Yes.

Q.—What would you expect to happen if a good strong speculative bull market took place in the futures market of Winnipeg? What would happen in the stored grain? Would you have a number of farmers coming in wanting to sell and close their advances? A.—At the present time?

Q.—What would happen at any ordinary time? A.—On an advancing market I would think that quite possibly the opinion would be formed by those owning grain unsold that it was time to sell to their advantage; but I would say in a general way, that an advancing market finds quite a number of our farmers or customers holding unsold grain deciding that now is the time to sell.

Q.—You would advise them to close their advances and you would hedge it? A.—No, sir, we would sell it. We would sell the cash grain.

Q.—At once? A.—Yes.

Q.—And the purchaser would hedge it? A.—The purchaser might or might not hedge it; but we would sell the cash grain and secure the cash.

Q.—You would buy it from the farmer at a price; would you sell out immediately at the same price? A.—If we sold it. If we are acting as commission agent in the sale of the grain, Mr. Chairman, we would sell it to a purchaser who wanted to take delivery of the cash wheat. If we bought it ourselves we would immediately hedge it, the moment we bought it.

Q.—Therefore, there would be as a result of the bull market a transfer of unhedged grain into the category of hedged grain? A.—Yes. As far as we are concerned immediately unsold grain in our elevator becomes grain purchased by us it becomes hedged. hedged.

Q.—And the people to whom you sold it on commission basis they would probably hedge it? A.—In all probability.

Q.—So that the result of a steady bull market would be to make hedges of grain rather larger than they were before in proportion to the total grain? A.—Yes, it would mean that—while grain in the country unsold is presumably unhedged, when it comes into the hands of the trade I would judge it would become hedged.

Q.—You have told us that the farmer holds it himself as a bull speculator without any market: he is just waiting for a better price. What proportion of the total grain in your elevator would you say was unhedged? A.—That is, held by farmers unhedged? I couldn't say offhand exactly, but I would think forty to fifty per cent of our present holding of grain in country and terminal elevators would represent grain held by farmers against which there are no hedges.

Q.—What period of the year would that relate to? A.—It would vary in relation to the market.

Q.—Would it be more just at the close of the fall? A.—I don't know whether I have an opinion on that, Mr. Chairman.

By Mr. Commissioner Evans:

Q.—Not necessarily much larger percentage in the autumn months? A.—I think it largely depends on market conditions. I really have nothing to base an opinion on.

Q.—A good average figure would be forty to fifty per cent through the year. A.—No, not through the year. I thought you were talking of present conditions. I would have to check that up. There are some questions which probably you will address to me that I perhaps would not be ready to answer offhand.

Q.—I do not want to take advantage of any knowledge or to press you if you would not feel competent to answer. We are rather anxious to see the extent to which the farmer is naturally carrying his own speculative price by his practice. We see how steadily the rest of the people engaged in the grain trade from first to last, how steadily they throw the risk of fluctuation into the futures market. The one arch speculator of all seems to be the farmer; we want to find out the extent to which he does. Would you agree with this—it is just as speculative to hold actual wheat for rise as it is to deal in futures? A.—Our shareholders think that, Mr. Chairman. I mean, it would be quite against the views of the owners of our Company, who are the shareholders, if we were to carry grain unhedged; we would be regarded as entering the speculative field. That is why we endeavor to keep as closely hedged as possible.

Q.—Would you say, as a matter of farmer psychology, to hold a commodity for a rise is regarded as an investment, but to deal in anything because you think it is going to fall is speculation? I am now on the question of farmer psychology. Isn't that the general attitude of mind? A.—It might be.

Q.—Wouldn't it be the general attitude of farmers to look upon any part of the community who are holding things in anticipation of a rise as investing, and those who are going to make a profit if it falls, as speculators? A.—I think that might be a correct interpretation.

Q.—But you cannot help us any further with regard to the quantity of grain held by farmers in this investing way? A.—Well, it depends, I think, as I said before, Mr. Chairman, on the condition of our markets. I do not think I could speak definitely on that, and state an opinion which would apply every year. I think the condition of our market has a great deal to do with the quantity of grain held by farmers unsold in our elevators. I do not think I can make a much more definite reply than that.

By Mr. Sweatman:

Q.—Has it been the invariable practice of your Company to hedge? A.—Yes, I think I stated that in my memorandum.

By Mr. Commissioner Evans:

Q.—You could consult your records and let us know later. A.—I would be very glad to. I want to say this, that if there is any assistance we can give the Commission by filing a statement of a specific matter like that we will be very glad to do it. I certainly do not want to be giving you inaccurate information.

THE CHAIRMAN—We appreciate that, the way you have helped us.

WITNESS—Taking the case of some of these things which I think you regard with a great deal of importance, I think it would be necessary to check the records before answering those questions.

By Mr. Commissioner Brown:

Q.—The amount of grain in your country elevators at the present time would be comparatively small, I presume, as compared with other parts of the year?

MR. COMMISSIONER EVANS—In your country elevators. A.—In our country elevators there is quite a little room, quite a lot of room in them. Our terminals are pretty well filled.

Q.—What proportion of your terminal elevators contains farmers' grain, have you any idea? A.—There, again, I would like to consult the records. I would say, offhand, about a third, perhaps—less than that; but before answering that question the record really ought to be consulted. I would be very glad to do that, and to come back and file a statement with you.

Q.—Your purchases in the fall from the farmers—I mean in the fall months when grain is moving rapidly—what proportion would you say, you buy from the farmer outright? A.—I think about fifty per cent would be a very close figure. Grain purchased at country points you mean?

Q.—Yes. A.—I think fifty per cent of our grain can be considered as purchased at country points by cash tickets.

Q.—That is street? A.—Street or track purchased grain. There, again, I will consult the record if you wish; but I think I am pretty sure on that point.

Q.—I think that would be important. And the balance would be forwarded to the terminals, or held in storage? A.—It would go to the terminals and be held for instructions from farmers and when sold would be sold in store or "B. and I."

Q.—As a rule would it be disposed of when it reaches the terminals? A.—If instructed that way we would sell it.

Q.—What proportion having reached the terminals would be sold immediately? A.—Immediately on arrival? There again I would want to consult the record.

Q.—I wish you would. A.—Is someone making a note of these points?

THE CHAIRMAN—They are all being taken down.

By Mr. Commissioner Evans:

Q.—Of your own grain you would either sell immediately, or otherwise, probably according to the amount of space in your own terminal elevators? A.—If we had room in the terminal to keep it there for the future months it would remain if it was thought advisable.

Q.—That is, if you could hedge it at a price which represented the carrying charges over the current price? A.—If we could spare the room, and the grain would give us the storage charge, it would probably remain for a future month.

By Mr. Commissioner Brown:

Q.—Do I get you right that in your opinion the futures market fills two definite purposes; one, it affords insurance against loss? A.—Yes.

Q.—And secondly, it affords you a ready market on which you can dispose of your grain? A.—That is quite correct.

Q.—That is the way I summarize it. A.—Yes.

By the Chairman:

Q.—You made it quite clear that you consider the general average effect of the futures market is to give the farmers, the producers, a rather higher price? A.—No, I didn't say a higher price, Mr. Chairman. I said, and what I meant was, a closer price. I think I was careful to use the words: "Without the hedging system it would be impossible for this company to pay the farmers as well for their grain," that is, as close a price. There is a distinction.

MR. COMMISSIONER EVANS—It would amount to about the same thing.

THE CHAIRMAN—Pretty nearly the same. A.—Not exactly the same; there is a distinction.

THE CHAIRMAN—Let us assume that is something a little better than— A.—Yes, than if there was not a hedging market.

By the Chairman:

Q.—Is it your view that a farmer would suffer smaller fluctuations of price with the hedging system? A.—That they suffer a smaller fluctuation?

Q.—The operation of the futures market tends to make fluctuations in the price the farmers receive less than they would otherwise be? A.—I think we can take that view.

Q.—Not so violent and not so frequent either? A.—Yes, I think that would really hold.

By Mr. Sweatman:

Q.—The same evidence has been given here of bull markets, a large amount of buying coming in from the outside public, and this was made on hedging. A.—Yes.

Q.—Have you any information to give the Commission in reference to any further short interest that would match up the extra purchasing power that comes into the bull market? A.—Well, I don't know that I can enlighten the Commission any more than I

have done on that point, except as I happened to be in here yesterday afternoon for a few minutes, sitting at the back of the hall, and listening with a good deal of interest to the endeavor on the part of the chairman to locate I think a certain group of people known as the short seller, and it seems to me that perhaps enough stress was not laid on the fact that in addition to the hedging pressure from the West to take care of purchases, that in all parts of the world, in Europe in particular, there must certainly be a similar pressure on the part of persons interested in grain and grain products. I am not qualified perhaps to speak with much authority, but it seems to me that the effect in Europe, by large bakeries and all interested in grain products, that in that direction they might find some reason for the hedging or short pressure.

By the Chairman:

Q.—Speculative short selling as well as actual new grain being hedged? A.—No, I regarded your request more as in the direction of finding the place where the short selling originated, or hedging,—after all the question of definition of short selling seems to be the one thing that is necessary to clear up; but I don't know that I have anything to offer, Mr. Sweatman, to assist the Chairman in finding the whereabouts of this other animal that is prowling around fox-like.

Q.—We had three very good ones given us this morning, quite respectable bears.

By Mr. Sweatman:

Q.—You have not in your own experience in the market, had experience of times when you thought that there was any overwhelming influence trying to disturb the market? A.—No, I don't think we have been unduly alarmed about the effect of all this. Perhaps summing up the views of our directors on this whole question of speculation I might put it this way: That we followed very, very closely the conclusions of the commission of 1924 on the effect of speculation on this market, and I think I may safely say on behalf of our board of directors that the conclusions contained in the Turgeon report very concisely stated, are very much in line with the conclusions held by the board of directors of this company.

THE CHAIRMAN—Let us hope that this Commission will be as fortunate.

By Mr. Commissioner Brown:

Q.—The organization of your company was one of the first movements on the part of farmers to carry on the operation of marketing their own grain; isn't that correct? A.—Yes, I think we represent the first move, in 1906 the old company started, and in 1911, as I said in my report——
able.

Q.—And I judge from this report as a result of those operations you built up a pretty nice reserve? A.—Yes.

By the Chairman:

Q.—Do you make the most of your profit out of your own shareholder members or out of the outside? A.—It is hard to say. As I stated just now, our shareholders come to us with their grain, but we are glad at any time to receive grain from any quarter, and our records show that taking year in and year out our net earnings are just reason-

Q.—I wanted to see whether the bulk of your profits were co-operative or proprietory profits; the bulk of the grain comes from your own members? A.—Not necessarily; I don't know, but probably half and half.

By Mr. Sweatman:

Q.—I just want to make clear: Has it been your invariable practice to hedge? A.—Yes.

(The Commission then adojurned to 2.30 p.m.)

2.30 p.m., April 14, 1931.

MR. PITBLADO—I spoke to Mr. Sweatman about the cash grain brokers' statement, the main part being that they use the futures market for disposing of the cash grain. That is all they know about it. I think you will be of the opinion that you have enough evidence on it, but I would like to file this statement and if anything comes of it I could call somebody.

THE CHAIRMAN—File it as Exhibit 12.

(Marked Exhibit 12.)

MR. PITBLADO—That is of a cash grain broker's function.

THE CHAIRMAN—Who is it by.

MR. HOSKIN—By the cash grain brokers.

THE CHAIRMAN—Q.—A considerate statement by them all?

MR. PITBLADO—Yes, that is what I mean.

(Brokers' statement entered as Exhibit No. 12).

MR. PITBLADO—The main part of that is on the second page and then they point out various things in this paragraph.

THE CHAIRMAN—Well, when we are studying this we will consider and then perhaps may decide to hear somebody on it.

THE CHAIRMAN—It is drawn by the cash grain brokers as a whole?

MR. PITBLADO—Yes. That is, the members of the Winnipeg Grain Exchange.

THE CHAIRMAN—Who are cash grain brokers?

MR. PITBLADO—As cash grain brokers. I am calling Mr. F. J. Anderson. I am especially calling Mr. Anderson at this point to tie up to the evidence Mr. Richardson

gave this morning about people coming into this market from outside points and using this market.

F. J. ANDERSON (called).

By Mr. Pitblado:

Q.—Your name? A.—F. J. Anderson.

Q.—You are, I believe, connected with the British——? A.—British Empire Grain Company.

Q.—And you have been in the grain business how long? A.—Since 1903.

Q.—Since 1903? That is practically all your working life almost you have been in the grain business? A.—And prior to that I grew some grain.

Q.—Prior to that you grew some grain. Then, Mr. Anderson, you are not an operator of a country elevator? A.—No.

Q.—Nor of a terminal? A.—We have interests in a terminal.

Q.—You are what you would call a grain merchant? A.—Yes.

Q.—And is part of your work receiving orders from outside of Canada for purchases and sales on the futures market in the Winnipeg Grain Exchange? A.—Yes.

Q.—That is part of your business. A.—Yes.

Q.—You have, I believe, a house in New York with which you have associations? A.—Yes, we have.

THE CHAIRMAN—You receive orders for the purchase and sale of futures. A.—Yes.

MR. PITBLADO—This house in New York of yours has connections with the Old Country? A.—Yes.

Q.—You told me that this firm, you understood, had the use of a private wire under the ocean to the Old Country? A.—I am so informed.

Q.—So that the firm that sends you orders from New York is a firm so far as you are informed and so far as you are able to know, that has direct communications with Great Britain. A.—Yes.

Q.—Where is their office in the Old Country. A.—They will have agencies there in several places.

MR. COMMISSIONER EVANS—On the continent as well? A.—Yes.

MR. PITBLADO—This is the first I knew myself that there were agents so widely spread as to have the use of a private wire under the Atlantic.

Q.—Now you say you do receive from your New York firm orders to buy and sell grain on this futures market? A.—We do.

Q.—And what would they amount to in the course of a year? A.—Oh, in the course of a year they might run into several million bushels.

Q.—As they come to you are they as a rule large orders in volume or the number of bushels or are the orders small? A.—No, there would be a number of small orders. There would be a few large ones.

Q.—What do you mean by small? A.—Five, ten, or twenty thousand bushels, sometimes up to fifty or even to a hundred thousand.

Q.—And the aggregate might run into some millions. A.—Yes.

Q.—Is there ever an aggregate at any time amounting to millions? A.—No.

Q.—But the open orders at any one time, they would amount to what? A.—Open orders would never amount to over one hundred thousand bushels.

Q.—Is this fairly constant? A.—Yes.

Q.—What is received, as you say, are put through on the Exchange? A.—We execute them, yes.

Q.—In the time of what I might call a bull market on the Winnipeg Exchange is the aggregate of these orders greater in volume or in amount than it is when the market is quieter? A.—There would be more of them. They might not be larger in individual orders.

Q.—But if there were more of them the aggregate or addition of them all would be greater? A.—Yes.

Q.—When the market is bullish? A.—Yes.

Q.—Now the next question I am going to ask is,— Do you know what it is that brings these people into the market here? I mean whether they are hedging or what they are doing? A.—No, I can't say what they are doing, hedging or removing hedges or doing it for speculators.

THE CHAIRMAN—You have no idea who the principals are?

MR. PITBLADO—Well, Mr. Chairman, he doesn't know who they are working for. Here is a typical case that Mr. Anderson has here and he doesn't know.

THE CHAIRMAN—With this bull market in Winnipeg you have the increase in orders. Is it an increase in buying or selling? A.—That would be both, both buying and selling.

Q.—Equally? A.—Oh, I couldn't say that that would be equally but the volume of trade would be larger on either side.

By Mr. Pitblado:

Q.—So, Mr. Anderson, even on the market as it exists today, these orders that you speak of do come through here to this market? A.—They do.

Q.—You are operating that way, even today? A.—Yes.

By Mr. Commissioner Evans:

Q.—Do you ever get very large selling orders? A.—No. Never any large blocks of selling orders.

Q.—Larger selling orders than buying orders? A.—No.

Q.—Somewhat about the same? A.—They run about the same.

By Mr. Pitblado:

Q.—I was going back to this now, Mr. Anderson, it is suggested to me you do not handle all of this firm's business on the Grain Exchange? A.—No, we only get a share of the business. It is on a reciprocal basis, generally speaking.

Q.—That is, you are doing business with them, and you do some? A.—Yes.

Q.—But there is other business done by them on this market? A.—Yes.

MR. PITBLADO—I Only use it to show a typical case of what happens with the outside orders coming in from New York, that is, the broker who fills them, he doesn't know the motive of the man there.

MR. COMMISSIONER BROWN—The only way to get that man's name is to go back to the New York Office?

MR. PITBLADO—I don't know whether you would get it there. What I was going to suggest to the Commission is, if they thought it would be of some value to have some New York man, because there are a number of these offices in New York, we would try and have a man of that type come on to Chicago, and see if anything could be worked out from them, but my information is, even that man, while he may know the names of his people in the Old Country, he again would not know their motives, because they do not ask the motives of a man.

THE CHAIRMAN—He wouldn't be able to distinguish whether it was a pure speculation attracted by the bull market, or fresh grain coming out from the Argentine or somewhere to be hedged? He couldn't tell?

MR. PITBLADO—He couldn't tell. You asked who is the elusive speculator. These men may be speculators by hedging in this market and speculating in that way. I can call others of this Exchange who do business for other firms than the one Mr. Anderson does, but I can't before this Commission give any aggregate of what that business would amount to, because that has never been segregated or kept track of.

THE CHAIRMAN—They would all be equally limited in their knowledge of what the principals' motives were.

MR. PITBLADO—Absolutely. I don't think there is a case.

By Mr. Commissioner Evans:

Q.—Mr. Anderson, you are also an exporter? A.—Yes.

Q.—Have you anything to add, I wonder, to anything that has been said about the exporting business in relation to futures? A.—Mr. Evans, I feel this, that Mr. Richardson covered that business very well this morning, and I can subscribe to his evidence in connection with the general business, aside from the country business, of which I have no direct knowledge.

Q.—When you sell for export what proportion of those who purchase from you have already placed hedges by hedging, or can you tell? A.—Very few in my judgment.

Q.—Very few who purchase from you as an exporter? A.—Take the importer in the U.K. or on the Continent they generally buy their wheat outright, and that is the original trade so far as we see. There are cases I know, of course, where they may use the futures to hedge their future requirements by purchases of futures, but that is not a large volume so far as we are concerned.

By the Chairman:

Q.—You think the moment the importer has taken the wheat he is carrying the risk of the fluctuations in price? A.—He is carrying the risk.

By Mr. Commissioner Evans:

Q.—They might be hedged in Liverpool? A.—They might be hedged elsewhere.

By Mr. Commissioner Brown:

Q.—He takes delivery where? A.—He may take delivery at the seaboard, but generally at his own port.

Q.—Generally? A.—Yes.

Q.—Does that grain remain unhedged from the time it leaves the sea port until it reaches its destination? A.—We don't know.

By the Chairman:

Q.—It belongs to him? A.—As soon as he has bought it it belongs to him, although he does not pay for it until it has been loaded on the ocean.

Q.—It is his risk of change of price? A.—It it his risk of change in price from the moment he buys it, so far as we are concerned.

By Mr. Commissioner Evans:

Q.—If the contract is to deliver C.I.F. port on the other side? A.—His risk, yes. We accept his name on the contract as people who carry out the contract.

By Mr. Commissioner Brown:

Q.—If you have to deliver at Liverpool aren't you the man who is taking the risk? A.—No, we don't deliver it at Liverpool.

Q.—Only in case of destruction? A.—No, we do not. We place the insurance for his account. You sell it cost of insurance and freight delivered, and give him a freight contract.

Q.—So he takes over the property at the seaboard? A.—He takes it over.

By the Chairman:

Q.—You give him an inclusive price at Liverpool as a convenience? A.—Yes.

Q.—But the net figure you are getting is settled and he is carrying the risk of all fluctuation of price? A.—He is carrying the risk of all fluctuation of price.

Q.—And you don't know whether he has hedged or not? A.—We can't tell. I would imagine if there was a market change, and he did not have it hedged, he might hedge it. For instance, if there is a bull fever on.

By Mr. Commissioner Brown:

Q.—There is no system of insurance that could be applied other than hedging? A.—I don't know of any other form of insurance than the hedge because he is hedging it in a like commodity.

By Mr. Commissioner Evans:

Q.—Do you keep your grain hedged to the seaboard? A.—Yes

Q.—You hedge all your grain? A.—Mind you, you can never market any grain if you leave a hedge on it continuously. You have to remove it some time or other. It is a matter of judgment when you remove it.

By the Chairman:

Q.—At any given time you are not carrying any large quantity of grain and carrying the risk of fluctuation in price? A.—No, but if I have inquiry for wheat from an importer, no matter where he is, he is not going to buy that wheat and give me back a future, he is going to buy the wheat. It is for me to use my judgment as to whether I sell it before I remove my hedge, or remove my hedge after I sell it.

Q.—But in general you keep yourself fully covered? A.—Yes.

Q.—Are there any times when you come out in the open and join in the little game? A.—Not very often, sometimes you have to do it.

Q.—When you say you have to do it, that is only a matter of arithmetical calculation to adjust your amounts? A.—That is it.

Q.—That is quite different from doing it as a matter of policy? A.—That is correct. As a matter of policy, no we are hedging.

Q.—You weren't tempted last year? A.—No, not very badly.

Q.—Not very badly? It is surprising what a lot of witnesses have an inflexible rule that got a bit damaged last year! A.—You are liable to get damaged nowadays almost any place.

MR. PITBLADO—I think, perhaps, Mr. Chairman, the grain policy with an exporter such as Mr. Anderson, the rule is not quite so inflexible as the rule is with the country elevator, because they are pretty inflexible as you have it here from their own standpoint, but with this they are dealing with it a little differently.

THE CHAIRMAN—He is like the rest of us, he can stand anything except temptation.

MR. SWEATMAN—I will call Major Strange.

MAJOR H. G. L. STRANGE (called).

By Mr. Sweatman:

Q.—Major Strange, where do you live? A.—At Winnipeg, at the present moment.

Q.—What would you say was your permanent domicile, Winnipeg? A.—Fenn, Alberta.

Q.—You have a farm there? A.—Yes.

Q.—Raising seed grain? A.—Seed grain.

Q.—You have made a more or less intensive study of seed grain? A.—Yes.

Q.—In whose employ are you now? A.—The Searle Grain Company.

Q.—Whose head office is in Winnipeg? A.—Winnipeg.

Q.—What are your duties in connection with the Searle Grain Company? A.—I am heading a department called the Educational Research Department, whose business it is to try and assist in conveying to the farmer some of the knowledge from scientific educational institutions that may be of benefit to the farmer, institutions such as universities, and experimental farms, to assist him in his work.

By the Chairman:

Q.—You are a popularizer or promulgator of the research and other information got out by research establishments and universities? A.—Exactly, sir.

Q.—Is that entirely on scientific subjects, or is it also statistics. A.—It goes in for statistics to some extent, but mainly scientific subjects.

Q.—Mainly on chemistry and fertilizers and such articles? A.—Better farming methods.

Q.—But you do also give information about prices? A.—Yes, sir.

By Mr. Sweatman:

Q.—What kind of a business is the Searle Grain Company engaged in? A.—A line elevator company.

Q.—Operating where? A.—Alberta, Saskatchewan and Manitoba, with the terminal at the head of the Lakes.

Q.—You are engaged in spreading this propaganda throughout the points at which they are interested? A.—No, everywhere in Western Canada. I have nothing to do particularly with the points at which they are interested. My work is for the farmers of Western Canada regardless of whether the Searle Grain Company has elevators at these points or not.

Q.—And its purpose? A.—Its purpose is to try and assist the farmers of Western Canada in solving some of their problems so that they may have a little more profit from their operations.

Q.—Would these problems involve the system of marketing? A.—Normally, no, but recently since marketing has come very much to the front I have been in the course of my lectures to farmers touching on marketing problems and trying to explain to them some of the fundamentals in marketing.

By Mr. Commissioner Brown:

Q.—How long have you been connected with the Searle Grain Company? A.—With the Searle Grain Company particularly about a year, but the same kind of work previously for some six or seven years with the Canadian Seed Growers Association, identically the same work.

By Mr. Sweatman:

Q.—Have you prepared a chart, and a statement in connection with the effect of futures markets on the price received by the producer? A. Yes, sir.

Q.—Will you produce it and make your statement to the Commission? A.—Yes.

(Arguments regarding fluctuations of wheat prices and the effect of the Futures market, referred to, produced and marked Exhibit 13.)

THE WITNESS—I have in addition prepared, sir, three charts, which bear on this matter.

By the Chairman:

Q.—They are connected with this? A.—Yes.

(Chart covering 529 years of wheat prices in England, produced and marked Exhibit 13a.)

(Chart covering 100 years of the main chart, appertaining to the value of gold in England, produced and marked Exhibit 13b.)

THE CHAIRMAN—What index numbers have you used? A.—I have used a curve outlined by Drs. Warren and Pearson of Cornell University, taken from the Journal of the Royal Statistical Society and other statistical data.

Q.—You have used Jevon's figures for the last hundred years? A.—Yes sir. And then I have here a very long chart, which is the relationship between the Liverpool price and the Winnipeg price since 1924 to date, with some notations from "Wheat Studies of Stanford University" of the reasons for variations.

Q.—What are the variations, monthly or weekly? A.—The variations are every two weeks.

Q.—Fortnightly variations? A.—With weekly variations in the English prices.

Q.—Have they been produced from Stanford? A.—The English parcels figures are from Stanford. The others are from the W. Sanford Evans Statistical Service.

Q.—The chart is made by you from two sources? A.—Yes.

Q.—One, the British prices that you got from Stanford University, and the other from some source of your own? A.—The British parcel average prices are from Stanford University, Dr. Taylor, and Winnipeg prices from the W. Sanford Evans Statistical Service.

Q.—Both studies of the figures have been used by the Stanford people? A.—Yes.

Q.—Have they done any statistical work upon them? A.—Yes.

Q.—Have they produced a correlation coefficient? A.—Yes.

Q.—Where is the coefficient? A.—Notations, I mean. Here are the prices and the amounts.

Q.—I want to know whether the variations have been worked out mathematically on

a correlation coefficient? A.—In the various volumes of wheat studies I think they have been worked out.

Q.—Give us a reference to them? A.—I have them in my office.

MR. SWEATMAN—Professor Grant instructs me they haven't worked out the correlation coefficient.

THE CHAIRMAN—Would Professor Grant come forward.

PROFESSOR GRANT (called)

(Professor Grant comes forward.)

THE CHAIRMAN—It is very hard to take in with the eye the whole of the significance of the variations for that period.

PROFESSOR GRANT—Yes.

THE CHAIRMAN—It is like a stair carpet, but if somebody tells me they worked out the correlation coefficient for the whole lot, and it is about 8.1, I know where I am.

PROFESSOR GRANT—They have worked out the monthly variation, the coefficients of variability for the months and for the years in the study of the variability of wheat prices. They have taken the standard deviation of month to month fluctuations, and then divided that by the average mean, and expressed it in coefficient variation in percentage.

By Mr. Commissioner Evans:

Q.—As between the three markets? A.—Yes, they have the three markets for a period of years worked out in tabular form, and then the standard deviation, plus or minus, worked out on a coefficient.

By the Chairman:

Q.—It won't tell us the statistical relation between them? A.—No, they haven't worked out the statistical correlation between the three series.

Q.—Is there anybody who could do it for us quickly?

By Mr. Commissioner Evans:

Q.—Is that the parcels price there as against the spot price in Winnipeg? A.—The British parcel prices against the spot price in Winnipeg of No. 1 Northern and No. 3.

Q.—They are both spot prices? A.—Yes.

MR. COMMISSIONER EVANS—There is no particular reason why they should actually coincide, where there is a local spot position over there, there might be a spot price here where there is a premium, or something. There is more delivery wanted over there, which ought to be directly related to the spot position here, but not necessarily spot prices, so I don't think that the working out of your correlations, if you take those prices would necessarily give you anything that was very definite.

PROFESSOR GRANT—If we have the data Dr. Murchison is here, and some of our students, and we might be able to sit up most of the night and work out an arrow for you.

THE CHAIRMAN—We will be back here next week. You know a chart is a very good thing for the eye, and helps one to see a position, but it does not prove anything, and it is not an actual statement of fact, whereas the correlation coefficient is definitely a statement of fact, and if that could be given to us it would be more closely related.

THE WITNESS—This is given to show the general relationship right through. You could not possibly say, for instance, that No. 3 Northern at that date, there was that difference in price between them, because with the future it would be over here some place, and the No. 3 is slightly below the British parcel prices in price, but this figure of the British parcel price is one liked very much by Stanford University because it is more uniform.

MR. COMMISSIONER EVANS—Most of the receipts are communicated, so that would represent the bulk of the market, but a point like that would look like a spot premium in London or Liverpool. This shows the general relationship.

THE CHAIRMAN—Will you read your statement to us now? A.—Yes sir. (1) Violent fluctuations in wheat prices have occurred continually for hundreds of years in Europe. This is shown very clearly on a chart which has been prepared from 529 years of wheat prices at Strassburg, Germany, and Liverpool, England, from prices published by Mr. George Broomhall.

I suggest that these price fluctuations are apparently largely caused by such factors as Wars, the opening up of new countries, states of varying prosperity, enterprise and cupidity of nations and groups of individuals, new inventions, climatic and other natural factors, all of which have an influence on the supply and demand of wheat and other foodstuffs, and which factors have their roots deep in Human Nature itself, and in Nature's varying phenomena.

It would seem, therefore, to be apparent that these fluctuations in the price of wheat are only capable of being stabilized, controlled or governed, when Human Nature itself with all its vagaries and cupidities, and when climatic and other natural factors are themselves capable of being stabilized, controlled and governed.

(2) I further suggest that these fundamental forces which finally make the price of wheat, are focused together so that their effect is concentrated upon the Liverpool wheat market, which so becomes the world's barometer of wheat prices, day by day, and moment by moment. This particularly because Liverpool is the magnet that draws to it the wheats from all over the world and that this market is directly influenced by the total

wheat crop of the world, some 4,000 million bushels annually, and indirectly in addition with all other foodstuffs that might be substituted for wheat and bread.

(3) I further suggest that this Liverpool wheat market then in the main governs the price in all other wheat markets in most countries throughout the world, so that a close relationship between these other markets and Liverpool is maintained to the extent that these other markets do not for long, nor for much, become out of line with their respective Liverpool parity of price. This I suggest is clearly shown by the chart of relative prices Liverpool and Winnipeg 1924 to 1931. A local market, such as Winnipeg, however, can be forced above the natural parity at Liverpool, in which case, of course, the producer benefits. But not for long nor for much, do I believe, can a local market be kept lower than Liverpool, for the reason that should this temporarily happen, the buyers and speculators would jump in and so force the price back to its natural parity.

(4) Attention is now drawn to the chart which shows Liverpool wheat prices from 1872 to date, and which curves have superimposed upon them the varying price or value of gold as calculated by Warren and Pearson, of Cornell University, using data and figures as published in the Journal of the Royal Statistical Society, Volume 84, 1921, page 260, and other statistical earlier data.

These prices of gold have been calculated from the index numbers of some 45 commodities, including such groups as vegetable foods, animal foods, sugar, coffee, tea, minerals, textiles and other sundry commodities.

There is a very striking inverse relationship shown on this chart between the price of wheat and the price of gold.

(5) A study of wheat prices of past years and of the factors affecting them show readily that the prices apparently are made substantially by the relationships between the actual and visible supply and demand for wheat, and to some extent by opinions regarding visible and future relationships of supply and demand of wheat. Yet the price of gold varies inversely but apparently directly with the price of wheat and the price of most commodities no doubt eventually inversely with the price of gold, but gold prices too and all these other commodity prices are in turn governed by Human Nature, enterprise, adventure, cupidity and the varying natural phenomena of nature that make up supply and demand.

(6) It would appear then that the varying prices of wheat, of gold itself, and so of most other commodities are so inextricably intertwined one with the other and with the varying factors that control the supply and demand of each individual commodity, that it seems impossible to imagine that such marketing details as futures transactions in wheat, essential and necessary as they are, could be any factors in affecting the major swings of the world market price of wheat to the disadvantage of the producer.

(7) From the farmers' point of view the real business of marketing methods and machinery in Canada is to transmit or reflect back to the Canadian wheat grower the world's wheat price at Liverpool with such skill that there will be the least possible margin between the producer and the consumer.

I suggest that a study of the relationships between the prices received by the producers in Canada, and the world's prices at Liverpool, will show that this end is most effectively attained by those who market the farmers' crops through the Winnipeg futures market, because this method of marketing assures the grain merchant against speculative losses for a very small premium, and so enables him to transmit back to the producer the very last fraction of a cent of the Liverpool price and to charge only a very small price for his service and skill.

The actual costs between Fort William and Liverpool are constantly varying with changes in ocean and lake freights, insurance, interest on money, international exchange, range of prices of wheat itself and the route followed, so that a true average figure of costs appears impossible.

The variations from 1921 to date are from about 35 cents to just under 20 cents per bushel.

Swanson and Armstrong in "Wheat" page 127, published in 1930, quote Dominion Bureau of Statistics as estimating 21.4 cents per bushel. Mr. Ursell, Statistician of the Board of Grain Commissioners, recently estimated at open navigation, via Montreal, 16 cents a bushel.

I draw attention to the price of No. 3 Northern at Fort William, on April 11th, at 53¾ cents, and that on the same day Mr. Broomhall cabled from Liverpool that for April shipment, via Atlantic ports, the price of No. 3 Northern C.I.F. Liverpool, was 67⅞ cents, or a difference of only 14⅛ cents, Fort William to Liverpool.

Apparently the Grain Merchants between the Canadian producer and the Liverpool buyers are returning to the Canadian farmer a few cents per bushel more than the Liverpool price, less freight and charges.

This peculiar situation of there being a less toll between Fort William and Liverpool than the apparent out of pocket expenses for freight and all charges is one that the map submitted shows to be constantly occurring, and it means that it is very frequently possible to return to the Canadian farmer a higher price for his wheat by selling it through the Futures market at Winnipeg than could be obtained if the wheat were transported from Fort William to Liverpool and sold for the farmer on that market direct.

(8) A Futures Market is usually considered to have the effect of reducing the minor

fluctuations within the wide price swings. The 500 year map seems to indicate that since the Chicago and Liverpool Futures markets were installed that the fluctuations within the wide swings have been less pronounced than before.

(9) There is a good deal of question and doubt as to who exactly are the speculators who deal in grain futures. I have tried for some time to discover exactly who these people are. None of them are easy to discover, either bulls or bears. Of one thing, however, I am quite convinced — that the number of Western farmers who speculate in Grain Futures, that is to say, apart from those who may occasionally use the hedging market to hedge their own grain, is very much less indeed than is generally supposed.

A survey of the books of the Searle Grain Company disclose that in the bull year of 1929-1930, when it seemed as though almost everybody was speculating, less than 2 per cent (1.97 exact) of those farmers who sold carlots of grain through the Searle Grain Company speculated in futures. These carlot farmers would be about one-third of the total amount of farmers who sell their grain through the Searle Grain Company, the balance being those who sell street grain outright. There is no reason to suppose, however, that those who sell street grain would speculate in futures to any greater extent than those who sell in carlots, so that it would appear that of all the farmers who marketed their grain through the Searle Grain Company through last year's big bull market, less than 2 per cent used their returns in money to speculate in futures. The Searle Grain Company operate some 330 elevators and we discover that at one hundred and thirteen of these points not one single futures transaction, of any kind or description was made by either farmers or business men in the period mentioned.

Who then are the speculators in grain futures? My own study leads me to believe that they can be divided into three main groups — the professional who attempts to make an entire living from this business. The semi-professionals, men of all kinds and walks of life who have spare capital or savings, who might be described as a group of students of the grain situation in Canada and throughout the world and who take a particular delight in this form of speculation as a hobby in exactly the same way that one man might invest his savings in bonds, another might buy a lot of land and erect a building hoping the price might rise, that another might purchase C.P.R. stock or International Nickel, hoping it would rise, so do these people find keen enjoyment in the hobby of speculating in futures with their savings, and I would say that as a group these people can afford any losses which may come to them, and I believe they are a large group. Then there is a third group who usually operate only in very large bull markets who are the pure amateurs, who have not much idea as to the market position of wheat but who simply blindly speculate in the hope that they may make some easy money."

THE CHAIRMAN—Are they bulls? A.—They are bulls and bears.

Q.—And bears? A.—Yes, sir, when they are selling. This is explained in the next paragraph.

THE CHAIRMAN—I am sorry. Go on. A.—"I believe that all the groups of which I have spoken are both bulls and bears and both buy and sell, that is to say, they are continually in and out of the market. They buy today—they hold for a few days or a week—they make a profit—they sell—they take their profit—they buy again and sell again —sometimes gaining, and sometimes losing.

I fail to see any way how pure speculating of this kind in certain types of markets that is not founded on real fundamental statistical facts of supply and demand can for very much, or for very long affect the world's market at Liverpool.

Unlike some, I do not attach any stigma to the speculator, and I certainly draw a clear line of demarkation in my own mind between this form of legitimate speculation and gambling.

I cannot help but agree in every way with the well-known decision of the Supreme Court of the United States, in the case of the Board of Trade of Chicago, versus the Christie Grain Company, in which the Supreme Court said as follows:

"People will endeavour to forecast the future and to make agreements according to their prophecy. Speculation of this kind by competent men is the self-adjustment of society to the probable. Its value is well known as a means of avoiding or mitigating catastrophies, equalizing prices and providing for periods of want. It is true that the success of the strong induces imitation by the weak, and that incompetent persons bring themselves to ruin by undertaking to speculate in their turn. But legislatures and courts generally have recognized that the natural evolutions of a complex society are to be touched only with a very cautious hand, and that such coarse attempts at a remedy for the waste incident to every social function as a simple prohibition and laws to stop its being are harmful and vain."

(Above statement referred to, produced and marked Exhibit 13c.)

By the Chairman:

Q.—You were a farmer before you joined the Searle Grain Company? A.—Yes.

Q.—And your present work is on this educational line? A.—Yes.

Q.—But before you joined the company you had the same kind of work with the Canadian Seed Growers' Association? A.—Yes.

Q.—Are there many of these educational associations? A.—No, sir. There are many attached to government institutions, but for certain reasons there is a good deal more

scientific knowledge in the hands of the institutions, than they are able to transmit to the farmers, so that there is a good deal of assistance needed in transmitting the knowledge of scientists to the farmer who needs it so badly.

Q.—But you are now sending information to the same farmers as the Canadian Seed Growers' Association? A.—Yes, sir.

Q.—There is a certain duplication? A.—Not duplication. I would say this: that if I might put it generally in a broad way, that perhaps if one regards the amount of work that might be done as 100%, perhaps half of one per cent has already been done, and there is an immense amount of work for other people.

Q.—But it is possible for a farmer to receive this kind of information from several institutions? A.—It is possible, but the other side is more nearly true, there are not sufficient farmers receiving all they should.

Q.—By what process is the selection made? What farmers are likely to receive the information? A.—They each work in a different way. For instance, the universities do a good deal of work by radio, and by the issuing of bulletins. The Dominion Government, because of the British North America Act, is not able to conduct direct educational work in the provinces, which is purely a provincial matter, but they are able to issue bulletins, and they throw them out and hope they may land on a person who needs them. Frequently they do. The Department of Agriculture of the provincial governments have a limited part only because of the reluctance of the taxpayer to pay taxes for supplying people to address meetings, and the Canadian Seed Growers' Association, which is a voluntary association, have attempted for years this work, but at the cost of the officials out of their own pockets, more or less. I have endeavored to address meetings, showing the value of good seed, but the work they can do is very limited. But the Searle Grain Company, however, is the first private organization to realize that a grain company, and perhaps others who deal with the farmers, should take care of it. There have been some other efforts made by the Pools, and the U.G.G., but the Searle Grain Company is the first who have had a very organized department for trying to supplement the work, not over-lapping, to supplement the work of the other organizations. We are working along slightly different lines to the others. The others attempt to convey the information in a broad way to masses of the people. We are attempting to discover the individual farmer who needs the knowledge, and who should have the exact knowledge which he needs from the scientists, and we endeavor to convey this.

Q.—You are a private, profit-making concern, who regard this as part of your legitimate function, to inform not only the farmers personally, but anybody else who has evinced a desire to know about it, or who is likely in your judgment to profit by it. A.—Exactly.

Q.—You keep a kind of a mailing list based on this principle? A.—Yes.

Q.—But despite that, and despite all these efforts being made, you think the average farmer is not receiving a bombardment of this kind of educational literature? A.—I think this, sir, that the average farmer in his farming methods is using a lot of practices which would be very much improved if somebody had the time and money to take a direct interest and work with him. I am not going to say they are not bombarded with a lot of pamphlets. Some of these pamphlets are excellent, but the farmer hasn't time to read them or digest them, and it does not get home in the way it should.

Q.—While I am on this point, you do attach to your physical scientific side about fertilizers and improved methods, statistical information about the wheat position, prices and the like, and if all of these people do that—I am trying to get at the impression upon a farmer's mind—at the moment when the bull market is likely to start he receives from a dozen different sources this kind of information when he is holding grain, and what effect is that going to have on his mind? A.—If the farmer would receive a lot of data known today to the Department of Statistics and to the grain companies it would save a lot of fellows, who now lose their money from wrong knowledge, and I think it would stop a lot of speculation.

Q.—That is, the promulgation of this information would have the effect of checking speculation rather than forming it? A.—Checking the speculation of people whom one might say have no right to speculate, because they don't know sufficient about the business.

Q.—Would you say a farmer is speculating who is holding his own grain because he thinks it is going to rise in price, if he could sell it straight away? A.—I would say there you would have to define the difference between speculating and investment.

Q.—I was trying to do so this morning and the answer seemed to be that if they were holding it for a rise it was called an investment, and anything being done in expectation of a fall is a speculation? A.—No, sir. The idea I have in my own mind is that anything that is held with the hope of the price rising is speculating pure and simple.

Q.—Just as much as the other? A.—Yes.

THE CHAIRMAN—I was trying to see what effect your efforts in giving information might induce him to speculate or to become a speculator more than he otherwise would be. You think you have prepared your information so carefully and wisely that he would not listen to any unjustifiable speculation? A.—I think so. My impression is that most people who do not understand their jobs speculate through some other person's opinion. If the dangers of it are explained to them it would stop a lot of speculation by people who have no business to speculate.

Q.—There is nothing in the fact of a bombardment of literature of this kind being unduly stimulating to the bull market? A.—I am sure not.

Q.—How long were you a farmer yourself? A.—Eleven years.

Q.—As it is a past episode in your life you perhaps can tell me whether or not you were in the habit of holding your grain for any length of time in the hope of a rise? A.—No, sir, I sold my grain as quickly as I possibly could, because in the early days of farming, Drs. Warren and Pearson of the Cornell University gave data for some forty-two years which showed that for an average of years it did not pay farmers to hold their wheat.

Q.—You were sufficiently wise to take note of what the professors said? A.—I did so.

Q.—You were never tempted to hold wheat for a rise? A.—My business in the main was the growing of seed, and seed, of course, was only sold to the farmers in the springtime. Whether I liked it or not I had to sell my seed in the spring. That took half of my crop, but I had a good many thousands of bushels that did not come in on that and I followed the custom of getting it threshed and hauled to the elevator and getting rid of it as quickly as possible.

Q.—Was that brought about because you had not a large amount of capital yourself? A.—No. Too much attention is paid to the impression that the farmer can do this or that. It is not sufficiently realized that what the farmer can do is governed by his machinery or methods of farming, for instance, in the fall the crop is threshed. There is going to be an hiatus of time and he uses that time to haul his grain, but if the roads are bad he must hold his wheat for a while. Then in the springtime he must get rid of that grain before seeding time, because his bins would be cluttered up with the grain and it is all part of the machinery of farming, the seeding, the harvesting, the preparing for the next crop, and harvesting the next crop, and so on.

Q.—The evidence so far has brought us into this curious circle: We hear farmers complain that owing to the existence of the speculative markets, they are not as well off as they might be, but the evidence shows that the speculative markets are made possible because the farmers are themselves speculating for a rise and the bulls come in because they are given the grain to be hedged, so the farmer is complaining about something that he himself makes possible. What is your experience? Do they come out and get rid of their grain when there is a bull market? A.—I do not believe it has any effect in any shape or form. A certain piece of work has to be done and methods of farming do not allow in delaying that work. You would be overwhelmed if you had to haul to the elevator four or five thousand bushels of grain in the summer.

Q.—We are told that wheat stored in the line elevators at any particular time, that a certain percentage will be at the farmers' risk, whether holding on borrowed money or not, it is not hedged; what percentage do you think was in that state, unhedged? A.—I am not prepared to make a statement. I am quite sure of this, if you would call before you one of the men in one of the grain companies, have the books of it produced, or one of the managers, you could get accurate information to the bushel.

Q.—You mean that we should know exactly how much at a given time of the year of the farmers' grain was in the elevators at the farmers' risk? A.—I think so.

Q.—Have you any impression as to whether the percentage would be small or great? A.—My impression is that it would be a small one. Fifty per cent of all grain is sold street. You have only the other fifty per cent to deal with, some of that is in carload lots and a good deal of that is sold instantly the car is loaded. How much is sold when it gets to Fort William or held for a rising price, I do not know, but I know with the Searle Grain Company that by the end of June that would be substantially from September, when we started to haul the grain in, only two and one-half per cent was left unsold that came into the company in September, October, November, December, January—up to June, ten months, only two and a half per cent was left unsold.

By Mr. Commissioner Evans:

Q.—Was that the year 1929-30? A.—Yes, sir. So I am inclined to think that the amount of grain which the farmer puts in a car and then takes an advance on and holds for a rising price, I am venturing the opinion that one would find it is much less than generally supposed.

Q.—What is generally supposed? A.—It is generally supposed that farmers indulge in speculating in wheat in a way which I do not find and I think you would find that they compose less than two per cent of all those people buying futures, but if you went through the country you would be told that the percentage of western farmers who bought futures in wheat varied from eighty to ninety per cent, whereas, as a matter of fact, we have only two per cent. I find that the percentage of farmers who speculated in futures trading even in a big bull year was very small and I would say if you dropped into those places where people bought futures you would find that the percentage of farmers was generally much less than supposed.

Q.—Supposing the bull market starts and the activity in futures is very great we are told these improving prices tempt the farmers who are holding their own grain not so much to buy futures themselves but to sell outright to people who get futures and this provides the other side of the bull market. It is not so much whether the farmer comes into the futures market as whether in that bull market he has got a lot of that hedged grain which goes into the hedged market in somebody else's hands. Is he carrying a lot of grain at his own risk that he is able to put into the bull market? A.—If half is sold on the street he does not carry that half and of the carloads a great deal of that is also sold, so that all that grain is out of it. And you have only a fraction of the

fifty percent left, what proportion, I do not know. I think it will be quite small. I would be surprised that of the amount of grain the farmer takes an advance on and deliberately| holds his grain in order to sell in a rise in price, if it would be ten per cent. I think it would not be ten per cent.

Q.—That ten per cent of the grain in existence of grain in the elevators would be the maximum which was handled by coming out into the hedged market from the unhedged market? A.—That is my impression.

Q.—And the bear we have been told about appears to be shrinking in size.

MR. COMMISSIONER BROWN—With your company it is not ten per cent, you say. A.—The Searle Company.

Q.—The farmer who markets his grain through your company, he is not holding through your elevators more than two and a half per cent? A.—That is at the end of June. Naturally there would be more between that time. I was astonished when I went through these figures to see what a small percentage it was.

By the Chairman:

Q.—Take your first chart dealing with 500 years. They were dealing with the long range prices of wheat. Of course we should have to deal with whatever was the standard of value during that period, whether gold or currency, or silver up to probably the seventies and then gold. I take it that the reason you started at '72 that is the date when world prices were predominantly gold prices? A.—Yes.

Q.—Did you make the remark that you think the fluctuations were greater in the old days than in the new? A.—Yes.

Q.—We should not be greatly influenced with the fluctuations in those days when there was not a large market for wheat, but what possibly you could get your pundits to do is to work out the coefficient, the normal trends since 1903, as that is the date on which the Winnipeg futures market was established. The coefficient of disbursements since 1903 and an equal period up to that date. They would be a million times more valuable than any other piece of information that is available to us as the quack medicine advertisements are so fond of putting it. I think they would be of some value to us. If they showed that the variability of prices was twice as great as before the futures markets it might be a piece of evidence relative to our company. But much as I am tempted to discuss the previous 500 years, I think I have got to hold my hand.

On your second graph on gold in relation to wheat? I do not think you have expanded on that in your memorandum. A.—Very slightly, except to show that the price of wheat is bound in with the price of a number of other commodities that affect the price of gold and show how closely they coincide.

Q.—That is on the main trend of prices the gold price level is the main factor? A.—Yes.

Q.—That is to say, if wheat today was the standard of value we should not have any change in price, the price would hardly have changed? A.—Yes.

Q.—It is out of our orbit to discuss long prices so far as they suffer from the gold situation. What we have to consider is given gold, do we give a higher or lower price for wheat. A.—Futures markets can have no effect on long swings. There is apparently evidence from the date that the futures markets went into operation that variations within the swings seemed to be more moderate than they had been before.

Q.—I do not think I want to spend any more time on that gold and wheat chart, but on this long one, with these other three fortnightly operations you promised to reduce that to a statistical coefficient for me. A.—Yes.

Q.—You think that the speculators are of three main groups: the professionals who make an entire living from this business; the semi-professionals, and amateurs. Do you think the professionals are equally divided between bulls and bears, or would amateurs tend to be more bulls and the professionals more bears? A.—Whether they come from futures business or cash business I would say that these professionals are inclined to go whatever way they think the market will go. They are quite unbiased and would trade any way they think the market is going. That is, they are ready to anticipate the movement of the market. The amateur first comes into the market only to buy something to sell. That seems to be a peculiarity of the poor amateur that he is satisfied with a little profit and he has to come back again.

Q.—The speculator is not so much a speculator in grain as in what the people are going to think about grain? A.—I do not think his dealings depend upon attracting others into the market.

Q.—If a bull market starts it can start with the big professional speculator, that amateurs are attracted into it and before that stopped going up the other people have turned around and taken advantage of them. A.—I would rather say this, that the big swing on the world market only occurs through real tangible fundamental factors of supply and demand. Some people say they can slightly anticipate that swing from observation and can get in before it, but if they did not get in, the movement of the market would be practically the same.

Q.—But the division of the people who gain and lose, would that correspond in any way with the division between the professionals and amateurs? A.—I would not say that. For instance, I would not care to tell you the names of a number of real professionals who almost lost their shirts. On the other hand I can tell you of poor amateurs who won money, but on the whole the professional is more inclined to be right,

and perhaps the percentage of professionals who make money is larger than the amateurs who do so.

Q.—Legislation has been passed in some quarters aimed at the reducing of large speculative actions, with the idea of cutting out the large speculators who are accused of being the cause of the initiation of bull and bear markets? A.—Yes.

Q.—You must be acquainted with the legislation in some quarters which has been aimed at reducing the amount of large speculative action? A.—Yes.

Q.—With the idea of cutting out these large speculators, who have been accused, or assumed, rightly or wrongly to be the cause, or the initiators of the bull and bear market? A.—Yes.

Q.—Are you acquainted with the Duvel Report upon the 1926 futures report? A.—Yes, sir.

Q.—You remember the coefficient and correlation between the movement of prices and the size of the activity of the eight largest speculators? A.—Yes.

Q.—That was a very high relationship? A.—Yes.

Q.—Whereas the activity of the remaining speculators, some fifty or sixty in number, was the very opposite? A.—Yes.

Q.—The conclusion to be drawn from that was that it was professional speculators who led the way and the others followed, and before they knew that a change was going to take place the eight big speculators had jumped and made their profit. A.—I also drew to your attention the work that has just been published by Alonzo Taylor of Stanford, perhaps as eminent an authority as Mr. Duvel—

Q.—We have that on the table. A.—A reply to that in which he states this, that he fails to see how the speculation at Chicago had any effect in lowering the price at Chicago below the Liverpool parity.

Q.—I don't remember the criticisms being direct to that particularly. Would you look the point up? A.—He didn't mention it so, but he said—

Q.—I won't take the time now of the Commission; you might do it for me afterwards. A.—I can find it.

Q.—I don't remember it myself, any direct contradiction of the Duvel. A.—He didn't mention Duvel.

Q.—But anything that could deal with him specifically. A.—"It seems to us, in summarizing these considerations, that an objective interpretation of price occurrences during the crop years 1928-29 to 1930-31 can lead to but one conclusion. This runs to the broad effect that the course of the price level, and the seasonal movement, do not support the inference that speculative short selling operated significantly in the downward direction."

Q.—But that fails in my point. First of all it is not directed to 1926, and we are both of us agreed that the big speculators suffered equally or more than the less ones. I am speaking of 1926, it is not directed to that; neither does that divide the speculator into two classes, large and small, so there is nothing in the Stanford Report which does any damage at all to the exact statistical coefficient findings of the Duvel Report. Possibly the circumstances attached to the bull and bear positions of 1929 were so large and so exceptional that what might be a good general rule as accepted in 1926 might have broken down completely. A.—Yes.

Q.—After all they were very exceptional circumstances which deceived the very elect? A.—I think that is true, sir. If they were taking one year with terrific movement. I would like to say that there are apparently in history certain periods of time when the whole world seems to go crazy for speculation, and it is very likely that one of these times was in this particular time, and it is very hard to draw a general conclusion from a particular—

Q.—The large speculator is an exceedingly well informed man and knows all the movements, and he is extremely well equipped with the statistical facts, but on this occasion he forgot the Gold position, just as a lot of other people forgot the Argentine? A.—Yes. That is the only way to explain why some of those on the Winnipeg market lost their shirts.

Q.—At all events the Gold position was an exceptional position in 1929 and 1930; that didn't exist in the previous bull movement; I mean there was no question of any Gold prices in those years, and therefore no lessons can be drawn from 1929-1930 of a normal character. A.—To apply to a general one.

Q.—1926 would be far more indicative of a general position? A.—Yes, I think so. I think in spite of anything that Mr. Duvel finds, I do think that he is speaking specifically on the rise in the local market at Chicago, and I agree—I cannot find the exact notation but one was in Mr. Alonzo Taylor's treatise when he mentions somewhere that he is inclined to think that not sufficient attention was paid to parity between Chicago and Liverpool.

MR. COMMISSIONER EVANS—What month of 1926 was that?

THE CHAIRMAN—It dealt with May futures in 1926. A.—I may say I was unable to my own satisfaction to prove to myself in any shape or form that speculation at any time anywhere can depress any local market below the Liverpool parity; so if that is true, all speculation works to the advantage of the producer and not to his detriment,

because when the local market is pushed up the producer benefits because he gets the money and Livepool leaves that market alone; when it is depressed below the parity of Liverpool it is such an obvious good buy that the speculators and buyers jump in and so equalizes the markets.

Q.—Wouldn't you admit the case of a lot of very unwise speculators making undue fluctuations in the market up and down? A.—In the local market, sir, but I don't think they run so much below the Liverpool parity, for this reason, that human nature would come in.

Q.—Suppose the speculators of all the whole world were very unwise, and they cause an undue fluctuation, doesn't that hurt the producers everywhere? A.—If they are all foolish.

Q.—And then there is a severe reaction? A.—Yes, sir.

Q.—Wouldn't you think that that has sometimes happened in the history of wheat speculation? A.—I couldn't say that; I haven't gone sufficiently into it to know whether the whole world——

Q.—It seems that extreme speculation cannot do the tremendous harm one might think in one market because of the check of the intercourse with all other markets. That is your point? A.—Exactly.

Q.—It is limited in the damage it can do? A.—And we very seldom find one group——

Q.—If there is only one madman then the average level of sanity is pretty high? A.—Yes, I think so.

THE CHAIRMAN—I am afraid I have taken up too much time of the Commission. I would like my colleagues to continue it. We are very much obliged to you, Major Strange, because you have given us a number of things that we can examine, and you have met us in every turn to the best of your ability.

By Mr. Commissioner Brown:

Q.—You were a successful grower of seed?—a prize winner?

MR. COMMISSIONER EVANS—World prizes? A.—Will you define successful, Mr. Commissioner?

THE CHAIRMAN—In the way of receiving a reward.

Q.—You made a world name for yourself? A.—I won at Chicago for the World's championship the sum of $15.00 and spent $1,100.00 telling people about it.

THE CHAIRMAN—Will you be somewhere in the neighborhood while the Commission is still sitting? When we have got a headache over these charts we may want your help. A.—Yes, sir.

MR. SWEATMAN—There is a farmer by the name of Gourlay would like to say something.

WALLACE G. A. GOURLAY (called.)

By Mr. Sweatman:

Q.—You are a farmer? A.—Yes.

Q.—Residing where? A.—Dauphin.

Q.—How long have you been farming? A.—I started when I was 17 years old—34 years ago.

Q.—Have you farmed anywhere else besides Dauphin? A.—In Saskatchewan, in Landis.

Q.—Whereabouts is that? A.—Straight west of Saskatoon.

Q.—How long did you farm there? A.—16 years.

Q.—And have you taken an interest in marketing of grain? A.—Yes, naturally.

Q.—Have you been a member of any of the farmers' organizations? A.—Naturally.

Q.—Just tell us about that. A.—I belonged to the Saskatchewan Co-operative Elevator Company when I was at Landis. I belong to all the farmers' associations.

MR. SWEATMAN—The Saskatchewan Co-operative was a company somewhat similar to the United Grain Growers, only operating in Saskatchewan.

By the Chairman:

Q.—It is a co-operative association of farmers? A.—It was.

Q.—For the purpose of marketing grain?

MR. SWEATMAN—Yes, they owned their own elevators.

Q.—You have two incidents you were telling me about, from which you drew certain deductions in connection with operation of the futures market, and the price that the producer receives; will you tell us the first one? A.—Mr. Commissioner, might I be permitted to put it in my own words?

THE CHAIRMAN—Yes, indeed. A.—This morning, listening to the other side, as I listened to Mr. Richardson I thought that I would like a chance to put the other side's views of it, the farmers' viewpoint. It struck me in listening this morning that the whole object was to show that the futures market, what we farmers always refer to as the option market, the whole of the good of that was reflected back to the grower, and, therefore, as I knew two outstanding periods in the past when that was not the case, I wished to bring it to your attention.

THE CHAIRMAN—Thank you very much. A.—In the spring of 1917 I went into Landis, and there was a man going in with a wagon load of wheat. I asked him where he brought it from and he said he brought it from a town almost 25 miles away. I asked him why he brought it to Landis, and he said because he had been offered so low a price in his home town. I stayed on the load and went into the elevator to see what he would be offered at the co-operative. The spread was so very large between the price that he was offered and the Winnipeg market, that as I was secretary of the local at that time I wrote to the headquarters of the company, asking them for an explanation of the very large spread, and it was because it referred to the option market that I wished to bring it to your attention.

Q.—Were they for delivery at the same point? A.—The freight rate was the same from both places.

Q.—The two prices were comparable? A.—Yes, exactly the same; the spread was so very wide that I wrote to the company, asking them for an explanation. They wired me to get as many of the shareholders together as possible when the train would come in the next day, and their traveller would be up to explain it; he explained it; he gave the reason for the very large spread, the fact that it was too late; it was in May, 1917—and that was when the war was on and prices were very high—the reason for the very wide spread was because it was too late to deliver it on the May option, and, therefore, they had to hedge in July, and the price of the July and May was so very far apart, that is what he gave as the principal reason for the wide spread, which showed that it was not the farmer, that it was the company that was taking advantage of the spread instead of passing it on to the farmer.

The next question is in 1920, in December 1920. Again there was a very wide spread between the prices that they were paying in the co-operative elevator in Landis and the U.G.G. elevator at Traynor. At that time I wrote to the head of the U.G.G. in their farmers elevator company asking for the reason for the spread; he wrote back to me and told me that the reason for the spread was that it was too late to deliver it on the December, and therefore they had to hedge in the May, and the spread between the December and the May was very wide; it cost them four cents a bushel storage and four cents a bushel interest, he said, to carry it to May.

Now the point I wanted to bring out was that the following April the Free Press said, just before navigation opened, "There is no wheat in the terminal elevators now, except what is held by farmers, and unless the farmers let go, when navigation opens the boats waiting at the head of the Lakes will not be able to clear." Now the companies had taken full benefit of the spread in the market, and had sold the wheat and taken the premium for the cash for the future and bought back their future, cleared their trades, but charged it to the farmer in each case, the full spread, the interest and the storage. The impression this morning was that the good of the option market or the imaginary good of the option market, was always reflected back to the farmer. I wish to give the farmer's side of it because we farmers think that the option market as at present carried on, because of the fact that a man does not have to buy before he sells, can be used very greatly against the farmer. We think that a man who never produces any grain should have to buy it before he sells it. We know that the trade used the fact that the majority of speculators lose as an inference that the farmers have made what the majority of the speculators have lost. We believe that there is often some big manipulator who steps in and sells what he has not got at all, what he has never produced, has never bought, and that he depresses the price and he is the man who gains this spread that the option market gives; that the fact that the average speculator loses is no proof that the farmer has gained when a man who never produced a thing is allowed to sell it before he buys it.

By Mr. Commissioner Evans:

Q.—Perhaps it might help the Commission if we got a little better understanding of those periods. You say the first instance occurred in 1917. That was one of the war years? A.—It was one of the war years, but an open market.

Q.—An open market up to what time. A.—I am not sure, but I know it was open then, in May, 1917.

Q.—Open until some time in May, 1917, when the market closed? A.—I don't know that.

Q.—Was not the situation this? At that time there was only one buyer in the market, if we except the local millers, who were buying for consumption in Canada, and that was the Wheat Export Company, which represented the Royal Commission on wheat supplies which bought for the Allies in Europe. A.—It was before that, because it was a fluctuating market at the time.

Q.—Wait until I state the case, and then see whether you agree. The Royal Commission on Wheat Supplies, operating through its organization, which was then established in Canada, the Wheat Export Company, stood prepared, supported by the credit of the Allies, to purchase all the supplies in Canada. A.—At a later date than I am speaking of?

Q.—No, I think you will find I am correct. And during the winter and spring months the Royal Commission on Wheat Supplies purchased all the cash grain, and also purchased all the futures. The crop of that year was largely a low grade crop. A.—This was No. 2 wheat I was speaking of.

Q.—You may have been exceptional, but there was a great deal of low grade crop. The ordinary merchants, including the elevator companies, when they purchased in the earlier months of that year, the autumn and the winter, this crop which was largely low grade, hedged their purchases in the month of May largely. They could not deliver that low grade as against their hedges, and when the month of May approached, and particularly in the first days of the month of May, they endeavored to buy back their hedges. The Wheat Export Company at that time was the holder practically of all the hedges that had been put out, because they aimed to completely control the supply in Canada. They would not sell. Therefore, there really ceased to be any market price for May futures. On the other hand, the price leaped up day by day until it came to a point where it was seen that the system could not function at all with one purchaser controlling all the supply. There was a meeting, and officially the May future was withdrawn altogether from the market. A Committee, as I remember it, of the Exchange first was put in control of the situation, and then in the early part of the summer, or during the summer, the Dominion Government appointed what was called the Board of Grain Supervisors, who took charge of the situation, and from the month of May, some time in the month of May, there ceased to be any open market, or any open market price, until we came to the year 1920. A.—I know, but later the market was closed.

Q.—But for the grain which you delivered or offered in the month of May. Later on in that month I attempted to compare the price which had been forced up to an absolute artificial level under those conditions with the price that anyone would have offered if the Wheat Export Company for the following July might not have got and secured the spread. But what would you think under the conditions, that those were fair conditions on which to judge the open market? A.—No, not if you are correct in that. I know that the market closed later, but I know it was not closed at the time I am speaking of.

Q.—I think I am quite right, it was closed in the month of May. Do you remember, Mr. White?

MR. WHITE—I don't remember the month. It was the May futures.

MR. PITBLADO—There is a reference in this report, not exactly to dates, in the Turgeon report, and I think it is put this way. The grain market was closed from 1917 to 1920, but does not give the specific dates, which are a matter of record.

MR. COMMISSIONER EVANS—That can be checked up, whether I remember that correctly or not.

By Mr. Commissioner Evans:

Q.—Now, coming to 1920, the market remained closed or under one form or other of Commission until August, 1920? A.—Yes, the time I speak of is December, 1920.

Q.—Just a moment. Now, at that time, or if we go back a little earlier, if we go back to about June, 1920, I think we will find that world prices of all kinds reached their highest peak, the culmination of the inflation during the war.

THE CHAIRMAN—May, 1920.

MR. COMMISSIONER EVANS—About May or June, 1920, and in Canada, as in other countries, the peak occurred at that place. The extreme world's deflation occurred at that period, and prices tumbled down very rapidly until the year 1923, the most rapid decline continued into the second year, all of the prices coming down. In view of that rapid deflation, perhaps you would have in mind with falling prices, and continuing for a time at that rate, would it be quite reasonable to expect that if a man was called upon to purchase for the month, say of May, that he would be prepared to pay as much as he would the previous October? A.—The facts are that he wasn't, and didn't.

Q.—Exactly, but if that very incident occurred in the period of the most extreme general deflation of prices you and I or any of us of this generation have ever known, would you think it is altogether satisfactory to pick out that as the second instance to draw a general conclusion with regard to an open market, particularly when this was the first month in which the market had been re-opened, after this long period of control under war conditions? A.—The market was opened, I think, in August, and it was open in that fall, and this time I am speaking of was in December. I am merely showing it is not the particular time or the particular amount of the spread, it is merely the fact that an imaginary good, which we farmers think is only imaginary, of the futures or speculative market, is not always, as was contended, reflected back to the farmer.

By the Chairman:

Q.—Could the witness give any cases more recent than that, in more normal times when there has been a considerable spread? A.—I couldn't give the exact amounts of spreads. There has been a lot of spread between the price that the farmer got for street wheat and the Winnipeg market in comparatively more recent times than that, but it is usually narrowed on the carload, it is not so wide on the carload as on the street.

THE CHAIRMAN—It is a spread of cost?

MR. COMMISSIONER EVANS—Yes.

THE WITNESS—We farmers believe that under present conditions where the man is allowed to sell what he has not got, the bull has to take not only what wheat is offered in order to keep the market steady, but all the bids against the market, and that is the reason where in one case I agreed with Mr. Richardson that the bear has the advantage, or in other words, that the bear, as you put it, can run faster than the bull.

By Mr. Commissioner Brown:

Q.—Mr. Gourlay, speaking on behalf of the farmers, what have you found in your experience to be the general conditions in the fall of the year when the crop is ready to market, what is the farmer as a rule forced to do? A.—The great majority have to sell as soon as they can get their wheat out.

Q.—They have to sell for what reason? A.—To meet their indebtedness.

Q.—To pay their indebtedness that has accumulated throughout the summer months? A.—Yes.

Q.—So they must accept whatever market is available at that time? A.—As a rule.

Q.—And therefore they do not enter into this phase of speculation at all? A.—I wouldn't say not at all, a few farmers speculate.

Q.—But that class does not? A.—No.

Q.—What have you found, or what do the farmers generally find with reference to the prices in the fall? A.—Ninety-nine farmers out of a hundred just look back at the figures and will say that the price has been lower in the fall than the spring, and regret they haven't been able to hold. Whether they would have gained by holding or not, is a question.

Q.—They find the prices are fairly good at the opening of the market, and find a recession shortly afterwards? A.—Yes.

Q.—Is that the farmers' view? Is that what you find? A.—Yes, in other words, we think the hedging pressure puts down the market.

By the Chairman:

Q.—After allowing for interest and cost of storage? A.—That is the general belief.

By Mr. Commissioner Brown:

Q.—Then somebody is playing the market to the disadvantage of the farmer? A.—Yes.

Q.—That is the impression that the farmer has, generally speaking? A.—Yes.

Q.—Have you found in your experience that the markets on the same day at various points where you may happen to market vary? A.—In some cases.

Q.—That is, one will pay more than another? A.—Very seldom any difference in the same town.

Q.—Quite so, in the same town, but adjacent towns, what have you found? A.—There has been evidence given on that that shows very great spreads.

Q.—You have found very great spreads even in adjacent towns? A.—Yes.

Q.—So that the market price that the farmer gets does not truly reflect the Grain Exchange price? A.—Not always.

By Mr. Commissioner Evans:

Q.—You couldn't give occasions on which that spread has occurred? A.—I could not now, but I remember before a Commission in Dauphin one time when some men there from Yorkton gave evidence of the prices there, and the prices where they drew to, and some of them drew fifteen or twenty miles to a different town because of the difference.

Q.—In your own personal experience do you know? A.—No, I couldn't say it. In Dauphin there was a good many elevators, and I couldn't say there was any difference there. And in Landis we had our own elevator there.

MR. COMMISSIONER BROWN—I think before our other Commission, Mr. Chairman, we found that farmers drew their grain from fifteen to twenty miles past their own elevator, and got a better price. That is, it more than paid them to haul their grain that much farther.

THE WITNESS—Yes, I know that.

MR. COMMISSIONER EVANS—Would that be related to the futures price?

THE CHAIRMAN—It is the higgling of the market with reference to particular short distances.

MR. COMMISSIONER BROWN—It wasn't a true reflection of the price at Winnipeg, at any rate, that we were led to believe the farmer got.

By Mr. Commissioner Brown:

Q.—I am not sure that this wholly relates to the inquiry, but what is the position of the farmer today with reference to the price of wheat? A.—I don't think any of them think it is at all equal to the cost of production.

Q.—I mean, can the farmer produce today wheat at the present prices? A.—I don't think so.

Q.—That is, it is better to leave his field, summer-fallow it, or treat it in another way, that is the economic situation of Western Canada today? A.—If he was sure that the price will fall, or be the same as it is today, I doubt if he would grow wheat.

By the Chairman:

Q.—Do you think he would speculate sufficiently on a futures market to go on seeding as usual? A.—Oh, yes.

Q.—He believes things must be better, and therefore he will take his courage once again? A.—Yes, and sometimes it is due to living on hopes. We are all optimists.

THE CHAIRMAN—It is very similar to the British farmer.

MR. COMMISSIONER BROWN—In other words, he thinks it can't be worse.

By the Chairman:

Q.—Mr. Gourlay, I don't ask you specifically what you yourself do, because that wouldn't be quite fair, but you know what a lot of farmers are doing? A.—Yes.

Q.—What proportion of the farmers' wheat is held by them for any length of time after harvest, either on their own capital, or money advanced from the elevators or the banks? Is it a large proportion or small? A.—I would say small. I remember one year asking an elevator man about that, and he said 15%.

By Mr. Commissioner Evans:

Q.—Do you know any farmers who have still a year or two's supply in store? A.—I know one.

By the Chairman:

Q.—Would you tell us what happens when there is a bullish market on futures in Winnipeg? Do you find a lot of your friends turn out unexpected wheat that you didn't know anything about? A.—I couldn't help thinking that the evidence this morning was complimentary to the farmer as a body. My own opinion is that the drop will bring out more farmers' wheat than a rise.

Q.—So he is not one of those people tempted out by the bull market, and assist the speculator? A.—I don't think so.

Q.—That is your experience? A.—Yes.

Q.—Then the second point, when there is a bull market how many of you farmers come out openly and become speculators with their money, apart from their own wheat? A.—I think possibly Major Strange's evidence on that would be about right, 2½ per cent.

Q.—Quite small? A.—Yes.

Q.—So farmers are not on the whole speculators, either by holding it for a rise, or on the futures market? A.—Very much less on the futures market than by holding it.

Q.—You think possibly 10 or 15% of the wheat farmers might hold for some months for a rise? A.—For some time.

By Mr. Pitblado:

Q.—Are you including the Pool percentage in that? A.—No.

By the Chairman:

Q.—We are talking about the non-Pool? A.—Yes.

By Mr. Pitblado:

Q.—You are a member of the Pool? A.—Yes.

Q.—So you have not been disposing of your wheat individually since you joined the Pool? A.—No.

Q.—For how many years? A.—Seven.

Q.—And a good many of your neighbore are Pool members? A.—Yes.

Q.—And they are not disposing individually of it? A.—No, I was referring to non-Pool.

By the Chairman:

Q.—One last question to you. What would you expect would happen to the price of your produce if all futures markets and options were abolished? A.—My own opinion is that it would help the farmer.

Q.—You think he would get a higher average price? A.—Yes.

Q.—Do you think he would suffer any larger fluctuations? A.—I don't think so.

Q.—Would you rather have an average price of one hundred, whatever it may be, with very small fluctuations, or a price of one hundred and five with very large fluctuations? A.—I think the more stable market is the better for everybody.

Q.—So you are prepared to take a little lower average to get stability? A.—Yes.

Q.—It is better for farmer economy and his accounts, not to have to face all kinds of large fluctuations? A.—That is right.

Q.—Therefore, you would not say that the farmer would be better off without options merely because of the average price being slightly better, but because you think there would be fewer fluctuations? A.—I think both, of course, but I may be wrong.

Q.—You think you would get it both ways, you would get as well as a better average, a smaller fluctuation? A.—Yes.

Q.—Have you any views why it is the whole of the futures market think the reverse? A.—Because they are the men that play it, and they like fluctuations.

Q.—It makes the business active? A.—If I was a speculator I would think I would want speculation. If I was a broker the higher the fluctuations the more business I would get.

Q.—But they are in a highly competitive market, they are not a monopoly that can work it one way or the other? A.—But when there is a rapidly fluctuating market you will see a great deal more speculation than on a steady market.

Q.—Hasn't it a tendency to make fluctuation less than would otherwise be? A.—I don't think it; I think it exaggerates them.

Q.—You think it makes them more? A.—Yes.

Q.—You are quite entitled to your opinion, but I just want to draw from you your ideas. You think that is the view of your colleagues? A.—I know it.

By Mr. Pitblado:

Q.—You do not belong to the United Grain Growers? A.—I am not a shareholder in that.

Q.—Did you hear Mr. Law's evidence today? A.—Yes.

Q.—So, at any rate, Mr. Law claims to represent some 30,000 of the farmers in Manitoba and the West. You heard that evidence of his? A.—I heard his evidence. I did not catch just what you are referring to.

THE CHAIRMAN—Thank you very much.

MR. SWEATMAN—I am instructed, Mr. Chairman, that the futures market closed on the 3rd of May, 1917.

THE CHAIRMAN—Have you more witnesses today?

MR. HOSKIN—We have Mr. Cathcart, general merchant, speculator, and a spreader.

GEORGE E. CATHCART (called.)

Examined by Mr. Hoskin:

Q.—Mr. Cathcart, you are a grain commission merchant, and I understand you are a spreader, and also that you speculate in the grain market from time to time? A.—That is right.

Q.—You have been a member of the Grain Exchange since 1909? A.—Yes.

Q.—And at times you have acted in quite a large way in the Winnipeg market? A.—Yes, sir.

Q.—As you heard Mr. Anderson's evidence here today, did you from time to time act for a number of these outside firms in New York and elsewhere, such as Mr. Anderson described? A.—I did not hear all of Mr. Anderson's remarks, because it was very difficult at the back to hear.

Q.—You may tell us what you have done as a commission merchant for outside houses that you have had connection with, in New York and elsewhere? A.— I have handled their business in the Winnipeg pit for buying and selling, all of them members of the Grain Exchanges, various Grain Exchanges, some Liverpool business, and some continental business.

Q.—Have you any means of knowing what that business was, whether it was hedging or speculating or anything of that sort? A.—No way of telling. I might guess at it but I could not tell.

Q.—Did that amount during the year to a considerable volume? A.—Yes.

Q.—What would you say it would be in the average year? A.—The business that I did?

Q.—For that class of client or customer? A.—You will have to give me a minute because I am figuring up what my commissions amounted to in a year, because that is the only way I can figure up the amount that I traded in. About a hundred million.

Q.—Did you find that what we call here a bull market had any effect upon the volume of that class of business that you were handling? A.—Oh, yes, it increased the business.

Q.—That is, it increased in volume and numbers of orders, I suppose? A.—Yes.

Q.—What class of orders would they be? A.—What do you mean?

Q.—I mean in size. Were they all large orders or were they slight, ten, twenty or fifty? A.—No, all the way up.

MR. COMMISSIONER BROWN—Up to what? A.—It is pretty hard to say, might be two or three five hundred thousand.

Q.—What would the average of them run at? A.—Twenty, twenty-five to fifty.

THE CHAIRMAN—You usually finish the day with an open bull account? A.—If I am a bull.

MR. HOSKIN—When it comes to speculating, Mr. Cathcart will tell you that he is sometimes a bull and sometimes a bear.

Q.—As a spreader, Mr. Cathcart, I understand during your operations in the Grain Exchange you had a great deal to do with spreading? A.—Yes.

Q.—Would you just tell us what you did and where that business originates? A.—That business originates in all the futures markets and in all the grain markets. It will originate in Europe also. In fact I have been getting out a spread sheet for twelve or thirteen years, that is for the use of millers, grain men, exporters, elevator men and those who want to look over the spread sheet and see the history of the business, the differences between the futures and between markets and what market would be the best to hedge in. I might add that I supply it to the Stanford University.

THE CHAIRMAN—Do you give comments or just allow people to draw their own inferences? A.—Just to draw their own inferences.

Q.—You do not point out the lessons to be drawn from it and invite them to do certain things? A.—I might do that for my customers. I might tell them that such and such a spread is good, give my reasons why and show what the spreads have been in past years.

Q.—If that is required I take it it stimulates your trade? A.—It stimulates trade and should make money if I am right. It will if I am right.

MR. HOSKIN—What was the reason for the spreader? A.—The reason is that he thinks one market is out of line with another, that another market is too cheap and another too dear. We are all advised by one Chicago house at the present time to buy Liverpool and sell Winnipeg against it. They think Liverpool too cheap. Just the same as buying stocks in London, not quite, because you are trading in the same stock when you trade between London and New York, but with grain we are dealing with different grades and different delivery points and also the influences that come to bear on one market might not bear on another, so while your judgment in the spreads in the long run might be right, very often something comes to disturb it.

THE CHAIRMAN—You cannot be right every time? A.—No, unfortunately.

MR. HOSKIN—And the effect of spreading as I understand from you is that when one market gets out of line the result of the spread is to bring that market back into line with other markets of the world? A.—That is the tendency.

THE CHAIRMAN—The bull market will bring about activity from the point of view of spread? A.—Yes.

MR. COMMISSIONER EVANS—Of the selling kind? A.—Of the selling kind if it is a bull market. If we happened to have a bear market in Winnipeg they buy here and sell in their own.

Q.—Is this the fact that spreaders are neither bulls nor bears? They work for a parity of price and their operations are a check on both bear and bull rise in a broad market? A.—Yes, in fact I know some people that never trade long or short.

THE CHAIRMAN—Entirely spreaders? A.—Entirely spreaders.

MR. HOSKIN—You have additional functions? A.—Yes.

Q.—Is the volume of that spreading very great in the Winnipeg market? A.—At times it is very large.

Q.—Would that affect the volume that is shown here as being dealt with in the Winnipeg market? A.—Oh, yes. In fact a great many spreaders do their spreading in this market between one future and another.

Q.—There is not only the spreading between the different markets but spreading right in the Winnipeg market as between the different delivery months? A.—Yes.

THE CHAIRMAN—Do you spread between grades too as well as between times and places? A.—The different grades of wheat? No, because that is a cash transaction, although I have spread—I bought a cargo of Danubian wheat in 1929 and sold futures here against it because I thought Danubian wheat was too cheap.

Q.—Your main object is selling between places? A.—My main business is speculation at the present time.

MR. HOSKIN—As you say, your main business at the present time is that of a speculator. What function does the speculator fulfil in this futures market? You might tell us your own views and experience. A.—My own views, of course, are that we are very important. I think every economist in the world has shown the importance of the speculator in all lines of business. In fact, I consider that as a member of the Winnipeg Grain Exchange my function is similar to that of London Lloyds. He takes the risk.

THE CHAIRMAN—You are an insurance man? A.—Insurance man.

MR. HOSKIN—You are sometimes long in the market and sometimes short, I take it? A.—Yes.

Q.—How do you determine the position that you are going to take at any one time on the market? A.—I determine that by my study of conditions the world over, whether I think wheat too high or too low.

Q.—You form your own judgment after having made as close a study as you can of the world conditions? A.—Yes.

Q.—I suppose that would change from day to day from the information you have as to the rain in one place, dry weather in another and various things of that sort? A.—That is it.

Q.—Is there anything else you can tell us, Mr. Cathcart, about the speculators? A.—While the speculator causes more interior fluctuations he prevents such wide fluctuations from year to year. There is no question about that. Without a futures market the fluctuations would be much greater than they are today. In fact the functions of the futures market have been destroyed somewhat of late years and for that reason we have had terrific fluctuations, flustuations that we should not have had.

THE CHAIRMAN—Would you mind enlarging on that: How have they been destroyed? A.—Because grain is being handled in a different way than it has been handled in years past.

Q.—You mean farm relief boards and pools and all that kind of thing? A.—Yes.

Q.—It tends to undermine the universality of the wheat market? A.—Yes. You have fifty per cent. of the western farmers that if they thought wheat should be sold it is in the mind of one man whether it should be sold or not.

Q.—It is a kind of negation of the thing that happens in a competative futures market? A.—Yes.

MR. HOSKIN: How does that affect the market? A.—If you hold fifty percent off the market the market is going to run that much further, going to run wild, with no pressure on the market, no hedging. But if you get the farmers, each individual, selling their grain and hedging their grain as they formerly did, you would find if the price went up they would be selling. In fact when you come to the speculative market, while the professional gives more of his time and the grain man gives more of his time and thought to the speculative market it must be remembered that there are hundreds of thousands of people the world over whose attentions are on the market, even if they are only in the market once or twice a year, but they come into the market if it is too high or low just as you do in stocks. We have had a rampant bull market and the collapse when it came had a lot to do with the grain market. From the way the grain broke from $1.70 gradually all the way down so that each day, except one or two days, there were no violent fluctuations, it shows the importance of futures market. If there were no futures market I am quite safe in sayiing there would not have been a grain company in Canada today, or at least the banks would have owned them and I think the Government would have owned the banks.

Q.—The question was asked and it was put to Mr. Richardson this morning—you were not here unfortunately—but the purport of the question was to find out when we might say there was a bull market. We have been told that the average speculator appeared to be a bull, but where did the short selling come from to take the opposite side of these buying orders? Who were the sellers? You have told us there is a speculator. There is the hedger. A.—There is the man who bought at the lower price. We have an instance of that on the market. One firm came in and must have bought millioins of bushels of wheat. They tended to stabilize the price. If they had not bought that wheat the market would have broken. On the advance several weeks later they got out of that wheat. They were sellers on that advance. Then we have the farmers who deliver their grain in the country; if they sell to the country elevator that wheat is hedged. We have also the farmer who consigned his wheat and it is lying at Ft. William and he has taken the certificates for it; if the market advances or suddenly he wants the money, he sells his wheat. Then we have the merchant in Liverpool who thinks that Australian wheat at ten or fifteen cents under Canadian wheat is too cheap and that Canadian wheat is too dear. Unfortunately for Australia they have no futures market. Argentine is in the same position. They have a very small market for wheat and a large market for flax; and we have the importer abroad who is going to hedge his wheat whether miller or cash handler. If we get out of range with that wheat that wheat is sold here just as I bought Danubian wheat because I thought it was too cheap. Then there is short selling—if I think wheat is too high I will sell it.

THE CHAIRMAN—Do you handle other people's orders at the present time? A.—I. only handle my own at present.

Q.—You are not one of those who receive a lot of bull buying orders and speculate against them yourself? A.—I used to handle a lot of that business. It did not make any difference what way the orders were coming.

Q.—Do you know of many speculators who would do that, who would pit themselves as bears against the public as bulls? A.—Now you are opening a question which practically means a bucketing trade.

Q.—I do not know how you would describe it. I want to know whether the speculator himself would possibly be a bear in a bull market? A.—Very often.

Q.—Against his own orders? A.—No, he would not sell against his customers' orders. He would fill his customers' orders.

Q.—But he might be selling against the trend of the customers' orders? A.—Yes, against the trend of the customers' orders.

Q.—Two speculators, without acting as buyers, could act alternately? A.—They could act themselves.

MR. COMMISSIONER EVANS—You would not hand over your orders to anyone else? You would execute your own orders? A.—Yes.

Q.—If you had a client's order to buy you would go onto the floor and buy? A.—Yes.

Q.—If your own view was that the market was too high, you might go personally and sell? A.—Yes.

Q.—And you would do that right on the floor of the Exchange? A.—Yes, many times I have had orders whicih I did not like to fill because I would have liked to have done the same thing myself. If the market opened strong you would like to sell wheat but you must fill your orders first. Sometimes you have an order to buy when you have a sellinig order but you cannot take your customer's wheat. You have to sell to others your customer's wheat which you would like to take yourself. All these things come into the broker's life, part of the day's work.

Q.—Does that cover the different classes of sellers whom we find in the market at times? A.—I think that covers them all pretty well.

By Mr. Hoskin:

Q.—The question directly before this Commission is: What effect, if any has the dealing in grain futures upon the price received by the producer. Have you got any opinion on the subject, Mr. Cathcart, from your experience? A.—A very strong one; I think it undoubtedly helps the producer to get a better value for his grain.

Q.—To keep a more stable market? A.—More stable market; the big fluctuations are more limited. There is always a lot of people, thousands of people who think that grain is worth more than it is selling for; they come in and buy it—I don't know whether it has been brought out to this Commission or not, but farmers for several years, in the Spring of 1924 and 1925 and 1926, they held a great deal of wheat in futures. They had sold cash wheat and bought futures, and I know that they made a great deal of money; millions of wheat was taken out of the pit; it doesn't matter who took them, farmers or speculators. That taken out of the pit relieved the pressure and kept the market from breaking. I know that a great deal has been said against the bear; he is a very wicked man, but I shouldn't like to speculate upon a market where no shorts were allowed.

THE CHAIRMAN—It would be very difficult. A.—That was the real reason for the collapse of the New York Stock Market. There were no bears, every bear was bust, no money left to sell short with. When the collapse came there was no cushion. If there had been more bears the New York Stock slump would not have gone so far, and business the world over would not have been disrupted.

MR. HOSKIN—I was just going to ask Mr. Cathcart about two other matters that are rather apart from his evidence, but we had some examples of the increase of volume of trading while it was actually the same grain, for instance switching of hedges from the different months. There are other practices on the Exchange in the trading which have the same effect, whether you would like that evidence or not.

Q.—There are occasions very frequently, I understand, Mr. Cathcart, on the floor of the Exchange, when a broker does not give up as you call it his customer's name. Would you explain to the Commission those transactions and what happens—well, the reason for it. A.—I may receive an order from an exporter to buy some wheat—100 or 200 wheat—and I do not give up his name because he does not want it known, he does not want the trade to know who is doing the buying, so at the end of the day instead of giving up his name, he buys it from me and I put it on the other side of my trading account and sell it to him.

By the Chairman:

Q.—That is not peculiar to the wheat? A.—No.

By Mr. Hoskin:

Q.—But the result is your 100,000 bushels of wheat shows in the Clearing House twice, as two sales? A.—Yes.

Q.—And there is another class of transaction which takes place from time to time, which is called an accommodation. What is that? A.—Well, we have those accommodation trades where a man has so much grain in the Clearing House, and has to pay so much margin that he cannot put it up. There are a great many firms doing business with firms on other Grain Exchanges where no margins are called, it is done on credit; a house in Chicago or Minneapolis does not call margin from us, and we cannot call them; we get a big line one way, and you have some firms who happen to be on the other side of the market, they will carry that wheat for you. If so we just sell them, or buy from them, as the case may be and even up our sheets with the Clearing House.

Q.—That would appear as if it were a fresh transaction so far as the Clearing House was concerned? A.—Yes.

Q.—And they would record it while it was still 100,000 or a million bushels of wheat that you had bought or sold weeks before. A.—Yes.

Q.—And then what happens in a case like that, where you might want perhaps to change that from say October to May? A.—Well, that would simply mean taking back and handing out again.

Q.—You take it back? A.—Take back October and give them May.

Q.—And then you go and get the May, and then you hand that over again? A.—Yes.

Q.—That would make it, as I take it, about four transactions in that one 100,000 bushels of wheat? A.—Very often in that class of business, yes.

By the Chairman:

Q.—I have heard statements made very similar to your own that the total effect of the existence of a futures market is to reduce the long period of fluctuation. A.—I think so.

Q.—But that probably it increases the number of tiny fluctuations? A.—Yes.

Q.—In any business where a commission is paid by the public for entry and going out of transactions, it is to the interests of those in that business to keep the market on the fidget, a litle dithering movement is good for the commission side of it? A.—That may be true, yet I don't know of any commission men in this market that enter into the market sufficiently heavy, to do anything of that sort. Nor do I know of any of the commission men who are out soliciting trade that way.

Q.—Do you know any spreaders who are powerful enough to start a bull movement in order to bring about a good deal of spread and get the commission on it? A.—Spreaders—no, I don't. The spreaders are not the ones to start bull or bear markets.

Q.—What would happen if commissions were abolished, and some system was introduced through the State or otherwise whereby people could make their transactions without any cost and get the price? A.—You would have to put the commission men on the pay rolls of the State.

Q.—Supposing they were just paid a salary, and the State recognized the value of this market, and said that anybody could come in and out without paying any commission? A.—That would be pretty nice, especially if the State would guarantee the losses made.

Q.—I am merely on the effect of abolishing the commission; then undoubtedly I know from conversations with my Stock Exchange friends in London that their paradise is a market that is on the constant shiver up and down.—Undoubtedly that is best for the commission men.

Q.—If the commission men were State officials, and thus nobody interested in having the market dithery would the market be dithery? A.—I think that he would be like most State officials, he would give you some figures and they would not be exact; he wouldn't care; he would tell you it was raining in Saskatoon, when it was dry, or he didn't know, he really didn't know without looking it up to see, he didn't know what the weather was like.

Q.—I am not discussing bureaucracy, I am merely taking the fact that I can go out and buy from my colleague here without costing me anything for commission we have got to use our respective brains and pit them against each other; we don't want any intermediary to help us. A.—I would like all the facts put before you.

Q.—Yes, we want a statement. A.—If you had good men in the State employ who would put these facts before you and draw them to your attention there would be as much trade as there is now; I don't know but it might increase under those conditions.

Q.—You think slight fluctuations might increase? A.—The volume of trading might on a perfectly stable price.

Q.—I am dealing with the fluctuations; the postulate before us is that the existence of a futures market diminishes large fluctuations, but tends to increase the slight ones. I suggest to you that the increase of the slight ones, the tremor of the market all the time, may have something to do with the fact that a commission is earned by somebody? A.—I think under the proposition that you suggested that commission men should be in the pay of the State.

Q.—I am not recommending that; I am only suggesting; I am only asking what would happen to the price level: would it be still as variable? A.—I think it would be just as variable, but owing to the fact that people could trade without paying commission you would find a great many of the public trading and the price level would tend to be a little higher, the kitty wouldn't be against them if they did not have to pay the commission—although I am not a poker player.

Q.—It is obviously to the interests of people who get a commission that there should be what is called an active market in any market? A.—Yes, and there are people in the business—there are a few people in the business, who are, what we call commission chasers; they try to sell you information, to get you into trades. I am not in that line of business now, but I must say that the people in that line of business here are not commission chasers.

Q.—Your evidence is that the commission is the result of anything that may happen in the changes of the market, but not the cause of it. A.—Yes.

Q.—The commission is the effect rather than the cause. A.—Absolutely.

Q.—You gave us various types of people who could bring about a bull market; you referred to the farmer selling wheat that he has been carrying and referred to the hedging coming in from other markets. Could you give us the proportion? Which is the more iimportant element, the farmers coming in or spreading from other markets. A.—It is very hard to tell; we have had certain years when there has been very large amounts of grain carried by the farmers in the spring. If we can get a bull market during the summer months, many farmers will hedge part or all of their crop. We have some farmers who recognize the advantages of this Exchange and if there is a bull market in June or July they will hedge their growing crop before it is harvested, if they think the price is high enough. If they can get that price they are satisfied, and if the market goes very much further it is all right.

Q.—Do you think that if you have a figure of one hundred extra bullish operations that fifty of them will come from farmers and fifty from outside, or what sort of proportion would you expect. A.—It is so hard to say, that is a purely theoretical question.

Q.—Still it is happening. A.—Yes.

Q.—We only want to know if what is happening can be measured. A.—You know, sir, better than I do.

Q.—I don't know anything better than you do. A.—I am afraid that is the first sarcastic remark I have heard from England.

Q.—I am sitting at your feet to learn. A.—I am afraid you won't learn much. A great deal of wheat changes hands and the price may go up, and when at the end

of the day there may be no more bears or no more bulls in the market, no more wheat open, and still it is not what is vulgarly called in the Stock Exchange wash trades, where they wash stocks up and down, still there has been no increase in the number of bulls and bears, although the market may be up one cent or two cents.

Q.—You may have the market up at a different level with the same number of people in. I am rather considering the case where there is a bull market and where a lot of people have been tempted in to buy on speculataion; we have evidence of where the bears come from, mainly two sources, from the farmers on hedged grains and groups in other markets, I was wondering which was the more important. A.—And the speculator.

Q.—He is the third man who takes up what the others didn't do. A.—I know some men who never buy anything. They think that if wheat is sellinig at ten cents a bushel it should be nine——

Q.—Scottish extraction? A.—No, I think the bears are Scottish extraction.

Q.—You told us that they haven't anything like a developed system of futures in Australia. A.—No.

Q.—Is there any information available as to the fluctuation in price received by the producer in Australia? A.—I haven't got any figures on that. Mr. Evans may have that. All I can tell you is what has happened this year from what I have seen.

Q.—Of course, this year is very exceptional in Australia, and is clouded over by other events. I would ask you whether there are any figures over a period of years in the past which I could have and I could get statisticians to work out the degree of fluctuation. A.—I think the only way you could tell that would be by getting the cash grain price at Liverpool market and deducting the freight and see what the price was to the Australian farmer.

Q.—Would you suppose that the Australian farmer got the Liverpool price less the freight? Would it be as straight an issue as that? A.—No.

Q.—There would be a much bigger fluctuation; there would be the intermediate people. A.—You would have to take the price at Sydney or Melbourne and work on that price.

Q.—That might give us an idea of the farmer's fluctuation? A.—Yes.

THE CHAIRMAN—Thank you very much, that is all I have.

By Mr. Commissioner Brown:

Q.—I notice there are 463 members of the Exchange, Mr. Cathcart, can you tell us how many are primarily speculators like yourself? A.—I could not.

Q.—Can we get that?

MR. HOSKIN—I don't know any way, Chief Justice, we can get that. I fancy a great number all do a little.

By Mr. Commissioner Evans:

Q.—But I mean primarily, Mr. Cathcart? A.—I don't think there are eighteen or twenty primarily speculating. A great many of them are what are called scalpers, taking from a sixteenth to an eighth.

Q.—Excepting scalpers and spreaders, are there many go in for the long? A.—I say not over twenty or twenty-five whose whole business is speculating.

Q.—Including scalpers and spreaders? A.—Yes, including scalpers or they might be spreaders, or speculators, but they are not in the cash grain business, and there are men in the elevator business who now and again are putting on spreads between markets.

By Mr. Sweatman:

Q.—You spoke of artificial limit of the futures market by the Pool. Is there something similar in the United States during this last year? A.—Yes, we have the Stabilization Board.

Q.—The Stabilization Board? A.—Yes.

Q.—With an official fixing of wheat in the United States? A.—Yes.

Q.—Did that coupled with the large quantity of wheat held by the Pools here have any effect on the price, and have any effect on speculation, in your opinion? A.—It has driven the speculator out, because if there is anything the speculator dislikes more than another it is the unknown.

Q.—That is, as I understand you, the certainty of a large quantity of wheat under the control of one person in the Wheat Pool, or in the control of the Administration Board makes speculation very dangerous? A.—Yes.

Q.—So you would say in the last year there has been much less speculation than usual? A.—Yes.

Q.—Has that any effect on the present price, or are there any inferences to be drawn? A.—There is only one inference to be drawn, the wheat is all in the show windows in the United States and Canada. The buyer abroad sees it there, and he refuses to buy until he simply has to, and waits until his bins are empty.

Q.—You think the lack of speculation is partly responsible for the low price? A.—Lack of speculation, I am quite positive, wheat would never have gone below a dollar a bushel, except on a panicky break due to the money markets of the world, and a depression

in other lines of business, I am quite sure wheat wouldn't have gone below a dollar a bushel, if things were in the Grain Exchange as they were eight or ten years ago.

Q.—So these artificial restrictions are detrimental to a higher price for the grain? A.—Yes.

THE CHAIRMAN—In closing the session I just like to say that the Commissioners place a good deal of stress on the importance of evidence of farmers and producers, and we would be very glad if any who have definite views based on facts and experience will come before us. If they will volunteer to give evidence I would be glad if they would get in touch with our secretary, Mr. Pearson, and they will then have a talk with our counsel, Mr. Sweatman. It may be that the information they can give would be of great value to us in our inquiry.

(The Commission adjourned at 5.15 p.m., April 14, 1931, to 10 a.m., April 15, 1931).

Royal Commission on Grain Futures

10 a.m., April 15th, 1931,
Royal Alexandra Hotel,
WINNIPEG.

PROFESSOR A. B. CLARK (called)

By Mr. Pitblado:

Q.—You are the Professor of Political Economy, or one of them, in the University of Manitoba? A.—I am head of the Department.

Q.—And have been connected with the University in that capacity for how many years? A.—Twenty-one years.

Q.—And prior to that what experience had you in studying, or in teachiing Political Economy? A.—I was a student of Political Economy under Professor Shield Nicholson, in Edinburgh, and I was thereafter his assistant, and thereafter Lecturer in Political Economy in his Department.

Q.—And apparently, I would think, Scottish by birth? A.—Yes.

THE CHAIRMAN—Well, you had a very good training, Professor.

Q.—Then did you come from there to Manitoba? A.—I came straight to Manitoba with the British Association in 1909.

Q.—And then you were taken on the staff here? A.—Yes, I was appointed before leaving Scotland.

Q.—And you have, I believe, Professor, made a study of wheat marketing? A.—Yes.

Q.—And of the futures market in connection with it? A.—Yes, I gave evidence on that subject before the Turgeon Commission in 1924.

Q.—And have you kept in touch with the subject ever since then. A.—Yes, to a moderate extent.

Q.—And you have, I believe, prepared your statement that you wish to make in regard to that? A.—Yes.

Q.—Will you read that to the Commission?

(Statement read by Professor Clark as follows):—

"What affect, if any, has futures trading on the interests of the producer"?

THE CHAIRMAN—On the prices received by the producer.

Trading in futures implies speculation in the technical economic sense, meaning estimating the price at a future date of a commodity liable to price fluctuations, and acting on that estimate. Now the speculaive market in produce, of which the futures contract is the characteristic feature, is a modern development arising from the operation of the causes which have substituted for the local market, with its known conditions of demand and supply, the world market with its everchanging conditions and consequent risk of price fluctuations.

It is the need of taking care of this element of price-risk that has made the marketing of such commodities as cotton and grain a business quite distinct from their production. By a process of division of labour, it has given rise to a new industrial class: the speculators or specialists in risks who are now organized in the produce markets. This risk-bearing class provides a continuous market ever ready to buy or to sell. These speculators thus meet the wants of producer and consumer, of farmer, elevator company, merchant or miller, who may wish to pass on to other shoulders, by "hedging" sales or purchases, the risk of loss arising from future fluctuations in the price of the commodity in which they deal. This exists at all times, but it is especially pronounced when the commodity in question is subject, as at present, not merely to the operation of causes affecting the demand for and supply of it, but to the influence of causes resulting in movements in the general level of prices.

With hedging it is not necessary to deal in details. It is simply a device by which the holder of wheat, say, seeks to protect himself against the risk of loss from an acutal sale or purchase, through fluctuations in price, by balancing against it an equivalent purchase or sale for future delivery.

But this economic service of the risk-bearing class—the maintenance of a continuous market for hedging purposes—is made possible only by dealing in futures. The market in futures, commonly though erroneously regarded as exclusively a speculative market, really provides in the hedge an effective means, and one extensively used, of avoiding speculation. So common has the practice of hedging become that the elevator company, the wheat merchant, or the miller who does not protect himself as far as possible against the risk of an adverse movement in price, by hedging, is with reason regarded as extraordinarily reckless. It has been said and with truth that "paradoxical as it may sound, the man who avoids the speculative market is the greatest speculator of them all."

Thus by the device of dealing in futures, with its utilization for "hedging" purposes, speculative risks are as far as possible shifted to a special class, and the corresponding speculative profits are the compensation received by them for the performance of this economic service.

It should here be observed that the profits of speculation, in the wheat market as in other fields, are on the average far lower than is commonly supposed. This arises from what Adam Smith calls "the overweening conceit which the greater part of men have of their own abilities," and "their absurd presumption in their own good fortune." These human weaknesses lead in general to a great over-valuation of the chance of gain in risky ventures. The few who succeed, too, remain and are conspicuous, but the many who fail disappear and are forgotten. It is the losses of the failures that help to build up the fortunes of the successful.

Not all dealings in futures, however, are for hedging purposes. If it were so, criticism of futures trading might be safely ignored. But to a great extent speculation in the strict sense of the term prevails in the futures market. Dealers, in other words, "sell short" or buy "long" simply with a view to profiting from anticipated price movements. Now, there are many intelligent people who recognize the economic utility of hedging and yet advocate government interference to prohibit entirely or penalise by taxation, this pure speculation.

It should, however, be clearly realized that the existence of an active purely speculative market in futures is an essential prerequisite of successful hedging. You cannot hamper the one without hampering the other.

In any purchase and sale of grain for future delivery, both parties to the transaction may be hedging, or both speculating in the strict sense, or one may be hedging and the other speculating. Now, even if it were possible to determine in each case the motive of the dealer—surely a very difficult feat, and clearly an impossible one in the case of orders from outside markets—even if we could determine motive and prohibit or penalize pure speculation, we should simply have so restricted the market, by driving out the risk-bearing specialists, as to render the arrangement of a successful hedge a very difficult and rare achievement. Think, in this connection of the plight of the elevator operators forced to hunt for hedging purchasers to take up their enormous hedging sales after harvest. At other seasons, the buyers of hedges might be in a majority, and thus find themselves in a similar plight.

It is in meeting such situations, by equating demand and supply, that the purely speculative dealer has a legitimate and beneficial part to play. He furnishes that continuous market which enables the farmer, the actual grain merchant, the warehouseman, the miller, each in turn to free himself from the risk arising from fluctuations in prices. It follows that to prohibit or penalize speculation in grain futures would mean to destroy or weaken the continuous market for hedging. Destroy the ftutres market, and the elevator operator will hedge his risk by paying a lower price to the farmer.

The marketing of grain, too, is conducted very largely on credit advanced by the banks, and as part of the security for the loan the title to the grain passes to the bank which may sell it at any time provided there is a continuous market; and that the speculative market in futures can alone provide. In the absence of such a market, competition for the farmers' grain would be greatly restricted—confined in fact to a few large firms having great capital and good credit. Thus not only does the futures market relieve the farmer from the risk of price fluctuations, it also permits of more and keener competition for his grain, and so again ensures him a better price.

The Speculator a Producer

Here may I be allowed to enter a brief defence of that much abused "social outcast," the speculator, who is unfortunately too often popularly confused with the gambler, and almost invariably so described by the critics of the futures market.

Speculation in price movements is an attempt to profit from one's supposed superior power of forecasting prices. He who buys in anticipation of a rise in price, or sells in anticipation of a fall, is really acting in the belief that his own estimate of the future is more reliable than that of the other party to the contract. He takes the risk of that. But the risks assumed in pure speculation are already existing risks which must be borne by someone. The speculator who buys wheat in the reasoned expectation of selling later at a profit voluntarily undertakes an already existing risk of an adverse price movement. What one speculator gains another loses or misses. But the gain of one does not cause the other's loss. Indeed the success of the first tends to lessen the loss of the second, for the more accurately the speculator forecasts the trend of the market, the more will his action tend to lessen price fluctuations. Buying in a falling market, he lessens to some extent the loss to the seller, selling in a rising market he lessens the rise in price and thus benefits the buyer.

In this respect, therefore, the legitimate speculator performs a socially useful service. Further, he may be said to add to the utility of the commodity dealt in. Having by careful study of the situation formed a reasonable estimate of the probable future trend in the price of the commodity, he buys or sells according to his expectation of the rise or fall in price. Take the case of the "bull" or speculator for the rise. Buying when the things is abundant and cheap (i.e., of little marginal utility) he holds to sell when it is scarce and dear (or of high marginal utility). Thus he adds time utility to the thing. Similarly buying in one market to sell in another in the same day, he gives place utility to the thing. He is thus an all round public benefactor, a productive labourer, and the profit he reaps from his dealings is the reward and the measure of his socially useful service.

Speculator Steadies Prices

Thus not only does pure speculation provide a continuous market, it tends on the whole to steady prices, instead of aggravating price fluctuations as is commonly supposed. It helps to distribute the supply more evenly throughout the year, lessening the extent of the fall at one time and the rise at another. The selling of futures, far from depressing the price after harvest, really tends to spread the supply over a long period, and thus to check the tremendous fall in price which would inevitably take place in the autumn.

This is seen if we consider the relation of futures prices to spot or cash prices. It is sometimes said that the first determines the second, and thus the farmers, to their detriment, are placed at the mercy of the speculators. There is indeed a close connection between the two prices, as is seen when we consider that the price paid to the farmer by the operator of a country elevator is largely governed by the price he knows he can secure by the sale of his future. But the futures price is not the ultimate cause of the movement in spot price, but rather the herald or advance warning of such movement, anticipating and lessening its extent.

The spot price may be higher or lower than the future according to the relation of old supply to the expected harvest. If, for example, old wheat is scarce and a good harvest expected, the spot price may be higher than the future price for a time. But as harvest approaches the low price of futures will cause a sympathetic fall in the price of cash wheat if that is abundant, thus stimulating consumption in advance, and so lessening the over abundance and fall in price after harvest.

Similarly, if the outlook in summer is unfavorable for harvest, then the predominant tendency of speculators will be to buy futures, and, under competition, the price of wheat for future delivery will rise. This, by increasing the prospect of profit through buying and holding in storage cash wheat, will cause a rise in its price, and, since the demand for wheat is not perfectly inelastic, the rise in price will somewhat check consumption, and thus the actual rise after harvest will not be so great. Speculation, in short, takes the sharp corners off price fluctuations, or smoothes out the price curve But the futures price can hardly be said to determine the cash price, for both are in the long run determined by the actual conditions of demand and supply, and it is only by intelligent anticipation of these conditions that the speculator can profit. In so far as he does, he performs a useful service.

On some Exchanges a contract may change hands very many times before the final settlement takes place and the more active the market the more perfect is likely to be its achievement in steadying prices, for the more frequent the bids and offers the keener is the competition and the closer becomes the adjustment of price to the actual relation of demand for and the supply of the commodity.

To suggest that the price rises or falls because the large speculator is buying or selling seems to put the cart before the horse. It would, I think, be more correct, in general, to say that the large speculator is an active "bull" because he foresees a rise in price, and an active "bear" because he foresees a fall. Thus he simply anticipates and spreads the movement over a longer period, thereby lessening its intensity.

Those who speak of speculation in futures depressing the price after harvest, overlook the fact that successful speculators look for very small profits on each transaction, and that to reap that profit the seller of futures must also sooner or later buy. Thus a very slight fall turns the "bear" into a "bull". It is scarcely correct to speak, as is currently done, of speculators as a whole buying at one time and selling at another, to the detriment of the producer. Every sale involves a purchase, and the dealing is largely within their own body. It is easy enough to point to a group of bears, on a highly speculative market like that of Chicago, who are "short" many millions of bushels at a time, but it must not be forgotten that there are other groups who are "long."

That there may be temporary manipulations of the market by "bears" or "bulls" on a very small scale is possible, but they are far less common on the grain market now than in its earlier history, and they have little effect on the general price movement. They resemble merely wavelets on the tide. Large scale manipulations in the grain market are difficult and very rare, and still more rarely successful. By the rules of the Exchange all manipulation is discouraged and punished when possible.

Gambling

Speculation is not, as it is often described, a form of gambling, but gambling is a form of speculation—that form in which the risks speculated in are artificially created. It has no economic virtue. The gambler creates an unnecessary risk. He has no expert knowledge enabling him to forecast the probable movement in price, but proceeds blindly, taking a "flyer" or "flutter," on the principle of the throw of the dice. Going with the crowd, he is more likely to aggravate than to moderate price fluctuations. His gain, if any, is the uncompensated loss of another, and the gambling transaction is the cause of that loss. In most cases the gambler is a "bull" speculating for the rise, and he is almost invariably a buyer in a rising market, thus aggravating the rise. If he is a "bear," he is generally selling in a falling market, thus aggravating the fall. He thus performs a social disservice—is in fact a social parasite who seeks to reap where he has not sown. He is the "poor moth" of the Exchange, and he is not welcome there.

THE CHAIRMAN—Mr. Clark, have there been any developments in this field of economic study since 1924-5, or any occurrences which have caused you to modify your

views which you had then, or do you hold them more firmly? A.—I think I should say that if anything I hold them more firmly than ever.

Q.—Have there been any important modifications? Has the gambling element become greater or less? A.—The gambling element was very prominent a few years ago but I am not sure that it is so now.

Q.—Would it be true to say that from the economic point of view that whenever you have a considerable cataclysm in the world prices that you bring out all kinds of elements into the field of danger which at other times are relatively innocuous? A.—I would say that is so.

Q.—Would you say that what we have been seeing in the last two years represents something abnormal and thrown the strain on the years preceding? A.—I should think that is distinctively so.

Q.—One of the points we have to consider and which was dealt with by you to some extent is: how far speculation is a clever but passive prophecy, anticipation of events that are going to happen in any case, and how far it is an active agency in bringing out what it has prophesied? A.—I do not think it is an active agency. I think it is the operation of intelligent anticipation.

Q.—You think on the whole it is merely anticipating what is going to happen rather than creating a situation? A.—There may be some people who try to create a situation but I do not think they are successful.

Q.—The testimony of the poet is: "Stability is the masterful administration of the unforseen?" A.—It is anticipation.

Q.—You will agree that it is a very important factor in the socialogical consequences of speculation? A.—Yes.

Q.—Speculation is a form of risk-bearing as a kind of insurance? A.—Yes.

Q.—Would you agree that some kind of insurance or risk-bearing can have three aspects: it may be either like life insurance, practically an actuarial or arithmetical set-off of results, one against the other, with a definite calculation of the percentage required to meet a risk: that would be the first form? The second form would be the lottery element, where it is not actuarially or arithmetically relating the total loss to the total premium, but were tickets to the successful people, the prizes they get might have to relation whatever to the premiums paid owing to what you might call overweening confidence? A.—Yes.

Q.—People have two kinds of overweening confidence? A.—Conceit.

Q.—One in their luck, which is what the lottery paid, and the other in their ability. Now it is very important that the insurance of this great degree of risk should be as far as possible on an economic basis. Of course, it is not really actuarial I might put it, if you had a wide world insurance company and farmers paid premiums to the people in the industry—it is not that either. It is something dependent upon independent psychology? A.—And judgment.

Q.—Would you say that on the whole the prizes of speculation like lottery prizes are actuarially below the premium paid: that they tend to perform their total social services at rather less than the actual total cost? A.—Yes.

Q.—That would be true of speculators?. A.—Yes.

Q.—And when you come to the gamblers in active times you get your overweening conceit and their luck as well as their own judgment? A.—Yes.

Q.—So what we would like to see introduced into this field is the element of certainty, based upon certainty and actuarial probabilities rather than have them in the background where they are dependent on the trick of the speculator? A.—Yes.

Q.—You think the speculator is a man of great confidence in his own judgment or in his own luck? A.—He is usually a very able man, the intelligent speculator.

Q.—I think the burden of your opinion on your point is that on the whole, taking him by and large, and one with another, he has performed this service at rather less economically than it might be by those in other walks of life? A.—If correct in his judgment he would get the result of it.

Q.—There are quite a number who lose? A.—Yes.

Q.—There is the possibility that his services may be rendered below cost because you have the services of markets? A.—Yes. I feel that those who go into risky employment get less than their due.

Q.—Being over certain they under-estimate or over-estimate the price? A.—Yes.

Q.—So it might be said on that line of thought that the economic activities of wheat raising and selling are to some extent subsidized by this work of the mind psychology in speculation. If you had a real insurance company it would cost them more? A.—It is possible.

Q.—Have you ever thought of an insurance company for this purpose? A.—Yes. It is rather a dream.

Q.—Because, of course, the risks are not spread as in other forms of insurance? A.—That is the difficulty.

Q.—They all come in at once? A.—Yes.

Q.—If, however, you get an insurance scheme started at the right time with a sufficient number of years' payments of premiums for risks you would have coming in—you might perhaps have your spread of risk from the point of view of times to have a stable scheme? It is a question if that could possibly be suitable in any single year? A.—It might be achieved in one sense but it would be a difficult thing. I do not think any of us will live to see it.

Q.—Would it be more difficult than insurance for explosion risks in explosive factories, where you have fourteen or fifteen years without an explosion and then a huge one? There you cannot spread your risks in any one year. You cannot spread it in point of times of the year either. You have to spread it in point of time. If you started an insurance scheme just before an explosion it would burst, but if you started it fourteen years before it would be successful? It would be essential to get it started at a time when prices were stable, relatively? A.—Yes.

Q.—I want to ask you as an economist, may I say as a brother economist, one or two questions on elasticity of demand and supply? We gather that the opinion is that demand is very inelastic for the finer product of wheat? A.—It is to some extent in Great Britain.

Q.—It would be to some extent in Great Britain and more so in other parts of the world? A.—Yes.

Q.—And if you have a material change in the other parts you would expect the demand to vary considerably more in certain parts of the world than Great Britain? A.—Oh, yes, I think so.

Q.—Would you say, on the whole, however, that with the world prices for wheat as registered, we will say, in Liverpool, that the demand was rather inelastic, more inelastic than most commodities? A.—Yes, but it is by no means inelastic. In a falling market there would be a certain expansion of prices.

Q.—But quite small? A.—Yes.

Q.—It would be in unity? A.—Yes.

By the Chairman:

Q.—Are you acquainted with the work done by Warren and Pearson at Cornell on this? A.—Yes.

Q.—They don't express it in figures, but they have some figures. When the price—when the supply was ten per cent short of the normal the price was ten per cent high, and in Liverpool the curious result, taking the two together, it was practically the same total sum of money which was paid—very curious. That result goes down to the beginning of the War. Are you aware of any similar work of like scolastic calibre done on the prices since? A.—No, I am not aware of any.

Q.—The economic bearing of the evidence we have had, flowing back from the question of inelastic demand, is this: if you introduce the differential into the Winnipeg market, restriction of futures, or abolition of futures, or some change in the course of the whole chain of events—if you introduce it into Winnipeg and do not introduce it into the rest of the world, inasmuch as you have a common supply price at Liverpool which Winnipeg has only a remote influence upon, and it is also an inelastic demand, you throw back that differential into the Winnipeg chain itself and probably on to the farmer; would you agree that that is probably a true economic result? A.—Would you say that again?

Q.—Supposing that the government introduced a very heavy tax on every deal in futures? A.—The government here?

Q.—Yes, and no one else. Would the incidence of that tax be on the consumer of bread in Great Britain? A.—No, I don't think so.

Q.—It would have to fall back on the farmer? A.—It would come eventually, I suppose, to the farmer.

Q.—Supposing some new boom came to the Winnipeg market, some advantage out of the skies, elevators put up for nothing, or something of that kind, where would the advantage of that rest? Would that make bread cheaper in Great Britain? A.—Well, it might, if it cheapened the production of wheat here, but then, I suppose, that would tend to affect the price.

Q.—It would not affect the price in Great Britain by the whole amount of the differential? A.—Oh, no.

Q.—Only to the extent of the elasticity of supply here and the total of the supply of the total world market? A.—Yes.

Q.—That particular boom would tend to rest upon the farmer? A.—Yes.

Q.—And if the futures market is a good thing in reducing the cost of risk, would you say that economically that is more likely to benefit the farmer than the consumer? A.—I think it would benefit both to a certain extent.

Q.—Is the elasticity of supply high on the farmer? Supposing you give him a very good price and he can reckon on it, does it quickly affect the supply, or slowly? A.—For a short period of years I think it would have a good effect. I think experience shows that rising prices leads to extension of the margin very quickly. I am not sure that falling prices reaches it so quickly.

Q.—It is easier to expand than to restrict? A.—Yes.

Q.—Not only in that, but every day in domestic life—— Well, the risk-bearing function which is being paid for to the speculator in such an obscure and indirect way, supposing it was paid for in a direct way and the farmer could see the premium he was paying, or the miller, or the grain transporter, could see the premium he was paying, would you think that the elasticity of demand for risk-bearing was high or low? Supposing that the premium were very high, would everybody still insist on insuring? A.—No, I don't suppose they would.

Q.—I suggest to you that the elasticity of demand for risk-bearing, from the evidence we have had from everybody except the farmers, is pretty stiff? A.—Yes.

Q.—That is to say, they are all so keen on not bearing the risk? A.—Yes.

Q.—Whereas the farmer seems to be the one whose elasticity is rather good, because we understand that quite a number of farmers are prepared to carry the risk of their grain in the elevators, and do? A.—And they are often very foolish to do it.

Q.—But the percentage varies. Some people have told us that, outside the Pool, half the farmers' grain is at the farmers' risk? A.—Yes.

Q.—But this has been mentioned, that when the speculators or gamblers start to bull the market the farmer sits up and takes notice and begins to push his grain out for sale, and immediately enters the hedging market? A.—Yes.

Q.—Doesn't that show that the elasticity of demand for risk-bearing on the part of the farmer is a pretty active one? A.—Yes.

Q.—Well, as for the whole of the rest of the fraternity it seems to be very inelastic? A.—I think that is so.

Q.—Now, coming to the bearing of your evidence—of course, I only heard you read it and I have not considered its full import—is it not true that from a general point of view of economic theory you maximized marginal satisfaction when you diminish those two items? A.—Yes.

Q.—I think that could be proved mathematically, if you have as much fluctuation above and below your normal. The total satisfaction is less if you have smaller fluctuations? A.—Yes.

Q.—The burden of your evidence is that this system reduces the fluctuations for the farmer? A.—Yes.

Q.—Therefore, it does minimize the economic possibility, if that is so? A.—Yes.

Q.—Wouldn't it be possible to say that the farmer would be better off with a slightly lower average price free from fluctuation, than with a slightly higher average price with large fluctuation? A.—Yes, I think that would be so.

Q.—Mathematically you could prove that? A.—Yes.

Q.—So, if the Commission were to find—I don't say they will or can—but if they were to find that this system is giving the farmer for a period of years a slightly lower price than he would otherwise get, that is not wholly necessary, because if there are smaller fluctuations, his aggregate satisfaction will be as great? A.—Yes. That is, a working man would be better off if he had regular employment at a moderate wage, than if his employment were not regular but his wage higher.

Q.—I am not interested in the question of high or low wages. You do not prove everything when you prove mathematically over a period of years the average. You have also taken into account the coefficient of dispersion? A.—Yes.

Q.—You made one very important statement. You said you thought that a smoothing out of the prices occurred as a result of the system of hedging was a fact that could be seen from the figures? A.—I think so.

Q.—Could you give us the figures to show us that? We have some pamphlets from the university working out the coefficient of dispersion of price about the norm since 1903 and before.

MR. COMMISSIONER EVANS—May I point out that those prices, in my judgment, are not comparable prices. I pointed that out yesterday. They are not strictly comparable prices.

By the Chairman:

Q.—If we could get a comparable system for the twenty-five years before and after 1903, which was the year in which the futures market was established here, although there was a lot of hedging done before that time in Chicago—if we could get that before and after picture, like you see in the patent medicines—"Before taking and after taking"—if we could get that picture it ought to show us whether the coefficient of dispersion is very much smaller now than it was before 1903? A.—Oh, yes.

Q.—If the standard of deviation is a lower figure than it was before, then, statistically, I think the point is proved, but the trouble is to get a comparable theory of prices? A.—Quite so.

Q.—But you think you have observed that actually? A.—I think I have been able to judge. I have seen some figures, but not up to date.

Q.—That is why I suggest twenty-five years before and twenty-five years after 1903. A.—With regard to taking figures before and taking figures after that period, you cannot quite compare them, because there have been other changes.

MR. PITBLADO—You cannot get that for Western Canada before 1903, because they were not growing grain for twenty-five years before 1903. It would be very difficult to work along that line.

By the Chairman:

Q.—You have offered me a very technical ladder and I am putting one foot on it to see if it will bear my weight. You have got the impression from figures that you have seen that the fluctuations are smoother now than they were before at any time. Can that be put higher than a mere impression? Is it more than an impression? A.—It is more than impression. It is based upon figures that I have seen.

Q.—If you could hunt up those and let me see if I get the same impression I think we would be very much helped, because that kind of before and after statistics, if it can be got on comparable lines, is very helpful, if not an absolutely convincing, item in the evidence.

I had one or two more points of a purely economic character. You tell us that the speculator, the proper speculator, the economic man who is taking the risk in the proper way, that he is watching what he thinks is the future of wheat. Well now, I suggest to you that an even more important thing that the speculator has to watch is what will be the conduct of the gambler; that is, to be a student, not merely of wheat supplies, but of gambling psychology; is that right? A.—Oh, yes.

Q.—It is not merely that they have introduced a very unnecessary element into the home market, but they have introduced an unnecessary element that the speculator has to calculate for? A.—That is so.

Q.—And in that sense, they are a nuisance both ways? A.—Yes.

Q.—They not only upset the market both ways, but they have introduced a very incalculable element into what the speculator has to think of? A.—That is so.

Q.—Don't you think that sometimes the speculator who has to watch men's minds—don't you think he may be tempted, even as a speculator, not only to watch their minds, but to influence their minds? A.—Well, he might. The gambler usually has supreme confidence in his own judgment.

Q.—But there are a great many who don't come into the open until some speculator gives them figures, or gives them tips? A.—Oh, yes.

Q.—The speculator is so much the victim of the gambler that he may sometimes take it out of him? A.—Yes. I think he would be quite justified in getting rid of him as soon as possible.

Q.—Teach him a lesson? A.—Yes, teach him a lesson.

Q.—But there is always a succession of new mugs to be trimmed, generation after generation? A.—Yes.

Q.—You have made a very important distinction between gambling and speculation, which I thoroughly accept, personally, in its economic importance, if it exists. What I want to ask you is whether the speculator, in self defence, since he is so often the victim of the gambler making an incalculable element in his otherwise perfect calculations, whether he might not sometimes want to get his own back? A.—By giving false tips?

Q.—Well, I don't say by giving false tips, but by letting him run after some piece of information more rapidly than it is really worth? A.—Yes.

Q.—Are you acquainted with the work of Duvel upon speculative transactions in wheat futures? A.—Yes.

Q.—Well, if the result arrived at there is—if the conclusions arrived at there follow logically from the figures, it has rather an important bearing upon the influence that the large speculator may have upon the amateur? A.—Yes.

Q.—In correcting the very situation out of which he can make a profit? A.—Yes, that is possible.

Q.—You see, I am suggesting to you that the speculator, whom you have defined as the man performing this very useful function, may in self defence, or out of temptation, take advantage of the gambler instinct in the market? A.—I think that is possible.

Q.—And in that sense he may sometimes put the fluctuation higher or lower than it would otherwise be? A.—I am not so sure of that.

Q.—It is a difficult problem, I know, the reason being that his main object is to smooth them down? A.—Yes.

Q.—And here and there he makes them a little more aggravated. The question is whether he is aggravating them more than he otherwise would? A.—I don't think so. That, of course, is my personal opinion.

Q.—You speak about restriction in the true kind of speculation as hampering hedges? A.—Yes.

Q.—If you had restriction of true speculation it would hamper hedges? A.—Yes.

Q.—I think all the witnesses who spoke in favor of the futures system bring out that point. When speculation is very active, a bull market, hedges come out in great numbers? A.—Yes.

Q.—Because the farmers are selling their grain that they have been holding, and the people who buy are beginning to sell, too? A.—Yes.

Q.—Doesn't that mean that gambling tends to increase hedging? A.—Well, yes, I suppose it does.

Q.—The farmer is gambling less, of couse, because he gets rid of his wheat, but the amateur is gambling more? A.—Yes.

Q.—But the net result is to increase the total quantity of hedging passing through the hedge market? A.—Yes. The risk is lifted from the farmer.

Q.—Do you think that in the operation of the market, particularly when it has rather a feverish aspect, that the bears are stronger or faster than the bulls? A.—I don't know.

Q.—You have been watching them for twenty years? A.—I am not competent to give an opinion as to the relative speed of bears and bulls.

Q.—It seems rather important when we are trying to size up the economic value of speculation, when it is tending to become gambling? A.—Yes.

Q.—As to who really bears the losses, if it is the succession of amateur mugs, or if it is the speculator having a bad time because the people have strayed into his field? A.—It is the speculator, I think. Once the wheat is left in his hands, it is no longer at the farmer's risk. I don't think the dealers are interested——

Q.—Excepting making their profits? A.—Oh, yes.

Q.—I think that should be accepted by all economists. But the moment you have irresponsible people come in, you introduce something which upsets everybody, speculators and all? A.—Oh, yes.

Q.—Have you in mind any way in which you could sort the two kinds out in practice, stop the one and encourage the other? A.—Stop the gambler?

Q.—Stop the gambler and encourage the true speculator? A.—No, I don't think it can be done, because the true speculator may himself become a gambler and the gambler may drop his other ways and become a speculator.

By the Chairman:

Q.—Because having there tasted blood he wants to study the situation? A.—I think that is very likely to happen, although it is more likely the speculator is tempted in a bull market to become a gambler, than it is for the gambler to be changed in to a speculator.

Q.—Because, after all, to be a true speculator requires close application? A.—Yes.

Q.—Nobody should be a speculator until he has a diploma in economics? A.—Well, yes.

Q.—Professor, I don't want to bother you any more except this, that the sum of your evidence is that the speculator maximizes value, because values are at their highest point when things are in the places where they are wanted most, and at the time when they are wanted most, and his operations tend to put a physical commodity in both these categories, the place where it is wanted most, and the times when it is wanted most, and in that sense he gives a greater value to the product than it otherwise would have? A.—Yes.

Q.—And the benefit of that value is not taken to an inordinate extent by the speculator, but goes back over the whole field? A.—Yes.

Q.—And advantages the farmer as well as the rest of the community; is that the burden of your evidence? A.—Yes.

Q.—Thank you very much.

By Mr. Commissioner Evans:

Q.—Something was said of the inelasticity in consumptive demands? A.—Yes.

Q.—You haven't worked out any figures to show whether the consumptive demand does vary practically directly with price, have you? A.—No, I haven't.

Q.—Even with regard to the United Kingdom you are not sure that the demand is inelastic? A.—It is not perfectly inelastic, I am sure of that.

Q.—Would you be surprised if in the last five or six years there was a variation in the quantity of wheat available for consumption in the United Kingdom, taking crops production? A.—There has been a variation of how much?

Q.—Ten per cent, twenty-five million bushels. A.—In the amount of wheat available?

Q.—In one year as against another. A.—In the amount produced?

Q.—Produced, plus imported. A.—No, I should not be surprised at that.

Q.—So you have no evidence, you are not prepared to say that the demand is inelastic?

THE CHAIRMAN—It is a question of degree of inelasticity. Sometimes by lowering the price of a product you can sell three times as much. A.—Yes.

By Mr. Commissioner Evans:

Q.—Is it or is it not? A.—I should say an increase or decrease of 10 per cent of the amount consumed would still mean inelasticity.

Q.—It might? A.—Yes.

By the Chairman:

Q.—To get clear on this, supposing the price went down 10% and the amount consumed went up 10%, would you call that elastic? A.—Unity of elasticity.

Q.—You wouldn't call that a highly elastic demand?

MR. COMMISSIONER EVANS—If you mean by elastic something that varies more than the cause, that would be right, but if it conforms to the cause in proportion, that is what I would consider inelastic, at least a perfect relation.

THE CHAIRMAN—The economist has a particular unit of elasticity, and in the case of that Liverpool result, the 10% up in the price meant 10% down in the consumption or virtually so, and the amount actually spent by the British was the same.

MR. COMMISSIONER EVANS—You come to the point of spending the same, but if your price for your wheat is up they will take less wheat.

THE CHAIRMAN—That is right.

By Mr. Commissioner Evans:

Q.—If I showed you this—I can't attempt to examine it, but it happens to be something I worked out a great many years ago which shows the world shipments of wheat and flour for the ten years before the War in relation to the price level. The scales are co-ordinated so that a change of percentage, or a quarter of an inch here would represent the same percentage of change in price as there was in quantity. You see to the eye a very striking actual conformity almost in percentage of the quantity of wheat bought by importing countries in relation to the price? A.—Yes.

Q.—They bought more when the price went down, and they bought less when the price went up? A.—That corresponds with my general argument, that the demand for wheat is not perfectly inelastic.

Q.—If it is not perfectly inelastic wouldn't you say it is perfectly elastic? A.—Not by any means.

Q.—If it varies in accordance with the price that ought to be perfect elasticity? A.—Unity of elasticity.

Q.—Unity is the desirable thing, the state of perfection? A.—What I want to bring out is a rise in price would cause a disproportionate demand, and a fall a disproportionate extension of demand.

Q.—It is not so disproportionate in wheat? A.—No.

Q.—Just on another point, we have had some material presented here before us which we haven't studied yet, but it is a question again this time of the relationship of world crops to the price of Winnipeg 1 Northern wheat? A.—Yes.

Q.—Again, the scales here are co-ordinated? A.—Yes.

Q.—And your average price line for the year is shown in the solid line. A.—This represents what?

Q.—The total world production within the crop year. This shows the relation in the Winnipeg market to the whole world crop? A.—Yes.

Q.—Apparently we will have to study it out in detail but in general there is a close relationship indeed? A.—Yes.

Q.—Until you come to this last abnormal year? A.—Yes.

Q.—Now reference has been made more than once to Mr. Duvel's evidence with regard to 1926, and probably some general direction being given to prices by the fact that some speculators were in the Chicago markets. If this is correctly drawn, and the facts are right during the whole period before and after that operation it would look that prices, at least in the Winnipeg market, corresponded more perfectly and more absolutely with changes in quantity on the average for the year than in any period for the ten years? A.—Yes.

Q.—You see an almost perfect relationship? A.—Yes.

Q.—So as far as Winnipeg is concerned even if it were true that that happened, it would seem quite evident it didn't cause any diversion from the true relationship of quantity to price in this market, anyway? A.—Yes, that seems to be so.

By Mr. Commissioner Brown:

Q.—Just one or two questions, Professor Clark. As I understand you to say the speculator is a cool, calculating man who studies world conditions well before he jumps into the market? A.—Well, he is in the market, and he acts on his judgment. He looks ahead and forms the best judgment he can, and acts accordingly.

Q.—So he acts with foresight? A.—I think so, yes.

Q.—Keen foresight? A.—Yes.

Q.—But the gambler on the other hand is the man who knows nothing about it, and has no foresight with reference to it? A.—Yes, he is very often a member of the public attracted by a bull market.

Q.—The gambler is the man who comes in on a rising market, as a rule?. A.—Very often, yes, I think ninety per cent as against ten per cent.

Q.—I think you said coming in on a rising market he goes out a loser as a rule? A.—Generally on the average he goes out a heavy loser.

Q.—He generally goes out a heavy loser. Now, who is the gambler? A.—It might be you or I.

Q.—Is it the general public? A.—The general public.

Q.—Would you say that the general public when they come into the market are the gamblers? A.—Yes, I should say so.

Q.—That is the result of your study? A.—Yes.

Q.—And the general public when they go out of the market as a rule are the losers? A.—Yes, as a rule.

Q.—Who gets the result of the loss? Who gets the profit from the loss? A.—Those who are fortunate enough to sell to them.

Q.—The speculator? A.—Yes.

Q.—In other words, the speculator profits by the foolishness of the gambler? A.—Of course he does.

Q.—Then in what way is the gambler a nuisance to the speculator? A.—The speculator has a profit on his operations because he has formed an intelligent forecast.

Q.—That is he makes it a little more dangerous for the fellow that is in simply on a speculation basis, to speculate accurately? A.—He is speculating accurately, the presence of the gambler is not foreseen.

Q.—That is he is a nuisance because the speculator does not know when he is going to come in, that is one of the things he can't forecast. A.—That is so, he introduces an element of uncertainty.

Q.—But as a result of his coming in, as a rule the speculator picks up his losses? A.—Some speculators may gain from his presence, but on the whole I say he is a nuisance to the true speculator.

Q.—Then I think you said that every precaution is taken in the Grain Exchanges of the world to guard against the manipulator? A.—Yes.

Q.—By regulation and rule? A.—By regulation and rule.

Q.—Would you give us some idea of what those rules and regulations are, and how they are enforced? A.—I haven't them before me, but I know anyone detected of fraudulent dealing is punished by expulsion.

Q.—I am not thinking of fraudulent dealing when I am thinking of manipulating the market. A.—Manipulation of the market?

Q.—Is that a fraudulent dealing? A.—I would say that dishonest actions entered upon to bring about——

Q.—Dishonest action? I don't wish to impute dishonesty or fraudulent transactions at all to anybody but there is some suggestion that the man of wealth, the speculator of means, can go in and in a legitimate way manipulate the market, that is affect the market and drive it down, or he can have the effect of putting it up? A.—So far as he can legitimately do so I don't think that he can be touched, but the question is, what is legitimate?

Q.—That is what I want to get at, is there any regulation or rule in the Grain Exchange to prevent a man of that character being active in the exchange? A.—I couldn't accurately say on that point.

Q.—You don't know anything about that? A.—I am not sure, because I would have to examine the rules, but I know, taking it as a rule that any sharp dealing is discouraged.

Q.—Any criminal would be put out of any society, whether it is the Grain Exchange or any other place? A.—What is that?

Q.—I say if a man attempted to commit an offence, whether it be fraud, or theft or anything of that kind in the Grain Exchange, or anywhere else, he wouldn't be tolerated? A.—No, quite so, but I think one can go further than that. I say that the man who is known as purposely attempting to bring about false impressions, that he would be discouraged on the Grain Exchange.

Q.—Is there any limit to which a man may sell short or buy long in the Grain Exchange? A.—I should say there is not.

Q.—There is none that you know of? A.—None that I know of.

Q.—And if selling short or being long has the effect of disturbing the market, what would you say? A.—I think selling short and being long are legitimate transactions providing they are the result of intelligent forecast of what is likely to happen.

Q.—Quite so. You think it never happens, as was suggested by the Chairman, and as has been suggested by Dr. Duvel, that sometimes these men of wealth can buy or sell short, for example, at a very critical period of the year for the farmer, and can depress the market? A.—To whom would he sell short? There must be others who are buyinig from him?

Q.—Yes? A.—And they would buy long in many cases.

Q.—Yes, but he being a large speculator can depress the market by virtue of his selling short because of his influence on the market? A.—I hardly think so.

Q.—You think that is not possible? A.—I do not think it is at all likely when there are others who may gain by dealing with him.

By the Chairman:

Q.—I would like to get the relation in the speculator's mind between these two classes of difficulty a little clearer now following that cross examination. The real difficulty is that when the amateur comes in on an active market the speculator has to study not

merely the actual future conditions of wheat demand and supply, but also a new and incalculable element? A.—Yes.

Q.—But that new and incalculable element is not so incalculable after all, it behaves in a certain mass psychological way? A.—That is right.

Q.—Supposing you and I were partners, and as highly skilled calculators we had calculated and agreed on the future prospects of wheat, and had arrived at our policy, and one morning when I came into the office you said to me, "Have you heard the dreadful news? There is a whole crowd of amateurs coming into the game?" And I should say, "No, that is not very dreadful, that is a chance of making a bit of money. We know pretty well how they will act, you are frightened and I am rather pleased." Which of us is right? A.—I would'nt be frightened, I would sell out.

Q.—You would sell out? A.—Yes.

Q.—I want to get a litttle clearer, from an economical point of view what you think is the consequence from the point of view of incidence of a differential of unity elasticity. Let us get off wheat for the moment because it rather confuses the issue, it rather imports a special influence into it. Let us suppose you are a boot manufacturer, and I come and ask you how you are getting on, and you say, "I am still taking $50,000 a year; it doesn't seem to matter what I do I can't make it more or less, because if I lower the price I only sell enough more boots to still make $50,000, and if I put up the price, I just sell so much, enough to make still $50,000." Having put up the price I just sell so much fewer boots, and still get $50,000." That is unity? A.—That is unity.

Q.—If you have that kind of unity, a differential is introduced into your costs. The public do not take it, it can't be put into the public. If it is some increased cost you have got to pay it? A.—Yes.

Q.—If it is some relief in cost you enjoy it? A.—Yes.

Q.—Now, if the elasticity of demand for wheat in Europe is approximately unity, it still means, does'nt it, that the advantage of the futures system must rest right back upon the farmer? A.—Yes, I think so.

Q.—That is the economiic consequence? A.—Yes.

Q.—I don't want to put words in your mouth, I say that is my conclusion, and I want to see if it is your conclusion? A.—Yes, that is my conclusion.

THE CHAIRMAN—Has counsel anything to ask?

MR. PITBLADO—No.

THE CHAIRMAN—Thank you very much, Professor.

CHARLES D. BAXTER (called.)

EXAMINED BY MR. SWEATMAN—

Q.—Where do you reside? A.—Fairmont, Saskatchewan.

Q.—That is west of Saskatoon? A.—Yes.

Q.—How long have you been farming there? A.—Nineteen years.

Q.—How many acres do you farm? A.—1,600.

Q.—You have a statement to make in regard to the use of the futures market? You have been using the futures market? A.—Quite frequently.

Q.—Would you explain to the Commissioin how you have been using the futures market? A.—Quite frequently, in fact about half of the time we have been up there we have sold our cash wheat, if we felt that the market was not satisfactory, and we have bought futures, and carried that in place of the cash wheat. We do that about half the year, whenever we feel from what information we can get that the market is apt to go higher. If we are not satisfied with the market, we sell our cash wheat, get our money, pay our obligations, and save carrying charges, and buy the futures.

By Mr. Commissioner Brown:

Q.—When you say "we" do you mean the whole neighborhood? A.—I and my brother. We own the farm.

By Mr. Sweatman:

Q.—Did you do it last year? A.—No.

Q.—Did you do it the year before? A.—Yes, sir.

Q.—It was a disastrous year, the year before? A.—Yes, sir.

Q.—But on the average over the last few years do your operations show a profit? A.—Yes.

Q.—How much? A.—Between $3,000 and $4,000.

MR. COMMISSIONER ROWN—What did he say about the last year?

MR. SWEATMAN—The last year he didn't do it, but the year before he lost.

By Mr. Sweatman:

Q.—How much did you lose the year before, as a matter of fact? A.—We stood for a 22 cent loss on 10,000 bushels of wheat.

Q.—Over a period of years your operations show a profit? A.—Yes.

MR. COMMISSIONER BROWN—In other words, he had built up a reserve?

MR. SWEATMAN—Well, he is just telling us his experience.

Q.—Now, do you have embargoes on your shippinig facilities at times? A.—Yes, sir.

Q.—Have you any opinion to express as to how the futures market helps you out in those cases? A.—There have been different times in the past when we were unable to ship our grain through shortage of cars, or car embargoes, usually in the fall. In fact, always in the fall we need our money. It has enabled us to sell our wheat within three of four cents of the spot wheat, less freight and carrying charges, and receive our money, while I feel if there were no futures we would not be able to sell our wheat on that small margin. No one would come out in Western Canada and take a chance of buying this wheat not knowing when they were able to get it on the market, unless it has some insurance.

Q.—Would you explain what you mean by embargo? A.—Just west of us on the C.N.R. is Drumheller coal mine, and they frequently put an embargo on cars to haul coal.

Q.—That is, you can't get cars? A.—We can't get cars.

Q.—So your wheat would be in the elevator and you wouldn't be able to get it out? A.—Yes.

Q.—You feel by dealing on a futures market you would get a better price? A.—I feel I am able to sell it on a much smaller profit to the buyer than I would be if he had to wait until the spring or whenever the embargo might be lifted to get his wheat to market.

By Mr. Commissioner Evans:

Q.—He couldn't afford to give you so big a price? A.—I think not.

By Mr. Sweatman:

Q.—Have you any other information you wish to give? A.—No, sir.

By Mr. Commissioner Brown:

Q.—Then you sell, Mr. Baxter, in the fall, because you need the money, I presume? A.—Yes, sir.

Q.—In that sense you are like most of the farmers on the prairie provinces? A.—That is quite general.

Q.—You need the money to meet the liabilities that you have created throughout the year? A.—Yes.

Q.—Then you buy what future when you buy? A.—We usually buy May.

Q.—So that you find as a rule that the price of May futures is higher than the price of wheat at first delivery in the fall? A.—Yes, sir.

Q.—That is your experience. A.—Yes, sir.

Q.—How did you happen to arrive at working it out on that basis? Simply through experiment? A.—Well, I have always done it ever since I have been in the country.

Q.—How long did you say you have been farming? A.—I have been farming out here for nineteen years.

Q.—You have carried on that practice for nineteen years? A.—Yes.

Q.—And the only time it failed you was in 1929? A.—Oh, no, I don't say that.

Q.—Well, I just want to see to what extent you are a gambler, and to what extent you are a speculator. On what basis have you calculated the wisdom of buying the May future? A.—It has worked out to our advantage, I believe 75% of the time. I think we have been able to sell our cash wheat and buy May, and some time between then and May we have been able to reap a profit, perhaps 75% of the time.

Q.—You still, notwithstanding your experience of 1929, intend to pursue that policy? A.—Certainly.

Q.—And you would advise all other farmers to do likewise? A.—I don't see why not.

Q.—I mean, do you feel so sure of it that you would with confidence advise your brother farmer to engage in a like enterprise? A.—No, I can't say that I would. I have done it, but generally speaking, I do not believe I would advise any man in his own business.

Q.—What I want to get at is this, you are not a speculator in the sense that we have had the word defined here, that is you do not study the markets and the conditions in a very special way? A.—No.

Q.—And calculate the possible results in a very special way? A.—No.

Q.—You rather jump in because of past experience? A.—Well, we get what information we can. We have our market sheets that we get, we have the radio, and we get statistics from other countries of the possiible yield, and we get our conclusions from those things.

Q.—Do you buy May futures in every year? A.—No, we haven't bought every year. Some years we have carried the actual wheat, and some years we have sold it.

By Mr. Commissioner Evans:

Q.—In your judgment the May future price is probably as satisfactory as you get at any time? A.—Yes.

Q.—Your dealings were in practically 75% of the time, that is it was your judgment that the world price level might improve and you have turned out to be right in that way? A.—Yes, sir.

MR. COMMISSIONER EVANS—It doesn't mean in 75% of the whole period that is true, but according to his judgment, when he did invest, he was 75% right.

MR. COMMISSIONER BROWN—Yes.

By Mr. Commissioner Evans:

Q.—You have found it suits your general convenience to harvest as soon as you can efficiently, and to deliver as fast as you can efficiently? A.—Yes.

Q.—And rather than hold the cash wheat if you had an opinion that the price might not at that moment be satisfactory, and incur the carrying charges which would fall on you for cash wheat, you would under those conditions sell your cash wheat, and then with a small portion of that money, or margins, you would make an investment of a somewhat corresponding amount in the futures market, and hold that until it was satisfactory. A.—That is the situation.

Q.—That is, as the market is now organized it enables you to suit the physical convenience of farming and your work in delivering your cash grain, and yet exercise your judgment on the market with regard to price, by holding in the future if you do not in the cash? A.—Yes.

By Mr. Commissioner Brown:

Q.—Would you, Mr. Baxter, have a better opportunity of judging future possibilities than the general public throughout the west? A.—I possibly make more study of it than the general public.

MR. COMMISSIONER BROWN—You have made more study of it? A.—I think I have, taking into consideration the farmer, if you mean the farmers out in the country as the general public.

Q.—And the citizens of the towns and villages too, you think you have? A.—Yes.

Q.—You have made a more careful study of it than the majority of your brother farmers. A.—I think I have; I expect I have.

Q.—And to that extent, therefore, you are more in the class of the speculator than the gambler. A.—Well, I am not attempting to define the speculator or the gambler.

Q.—The evidence, so far, goes to show that when the general public come in—and in the general public I include the farmers throughout the prairie provinces—that when they come on to the market they come usually on a rising market, what is known as the bull market, and they go out the losers. That is the evidence of those men who seem to be competent to speak on this question. A.—I imagine that would be true if you were going to buy at a high point all the time.

Q.—If that be true as applied to the farmers as well as the public generally it would not be a wise policy for the farmer to deal with his wheat, generally speaking, as you have dealt with yours. A.—I think he had better do that than attempt to carry cash wheat.

Q.—You think it would be better than to attempt to carry the cash wheat because they are speculators; there is not only speculation as to the price that he will get, but there is the possibility of destruction by fire, there is the carrying charge and all other expenses in the meantime? A.—Certainly.

Q.—And depreciation? A.—Yes.

Q.—In weight and quality and everythinig else; isn't that right? A.—Yes, sir.

Q.—Those are risks that he is incurring in the meantime. A.—Yes.

Q.—But we do not find, as a rule, in this country that that is the farmer's problem at all. The farmer in this country, we have heard already as a rule is forced to sell his grain; he doesn't carry it, generally speaking. Isn't that right? A.—Well, I expect that you are correct in that.

Q.—You expect that is correct. A.—Yes.

Q.—So that we do not need to consider that phase of it; he is forced to do what you are forced to do, that is to sell and take your price and apply your money to useful purposes, or he is forced to sell and use what of it he needs for immediate purposes and the balance for buyinig futures? A.—Yes, sir.

Q.—I will put it to you again: generally speaking, would you say that the farmer is well advised to sell his grain rather than deal in futures? A.—Well, you have just shown how he couldn't hold, he was forced to sell it to pay his debts. Isn't that your contention?

Q.—Quite so, and that he is better to apply it all on his debts and bank whatever balance he may have over and above his debts rather than buy futures with it as you have done, with his limited knowledge. A.—Well, that is his business.

Q.—But I am asking you the question; which would be the better policy? A.—I have made a profit by doing what I have done.

Q.—Because you have been a calculating individual. You say you trade with more foresight and more knowledge than the average farmer would be able to do. Didn't I understand you to say that? A.—Because there are many farmers in the West that do not even take a daily paper?

Q.—Sometimes they take the daily papers and read them carefully through and still are somewhat ignorant as to what is going to happen in the future. Is that right?

THE CHAIRMAN—Which is the greatest speculation, to read a daily paper or to ignore it?

WITNESS—You are absolutely correct.

MR. COMMISSIONER BROWN—You have helped me out, sir.

By Mr. Commissioner Evans:

Q.—All farmers, of course, do not sell their grain. We had some evidence here the other day that even at the present time the line elevators in the country—certainly one important line, the representative of which was giving evidence—forty per cent of the grain in those elevators was still held on farmers' account, as I suppose you know a good many farmers as a matter of fact who actually do hold the cash grain and undoubtedly in most cases have received an advance against it. A.—You know what is happening in that case, he is paying the storage and interest on his advance.

Q.—But there are a great many farmers who retain ownership in the grain, even to this late in the season and later? A.—Yes.

Q.—Instead of selling? A.—Yes.

Q.—So they are not all forced to sell, they may work along on the advance they receive? A.—Yes.

Q.—I think you have made perfectly clear to us that it has been your experience and your judgment that you would dispose of your cash grain, relieve yourself of the liability of carrying charges and that sort of risk, and then if it was your judgment that the cash price you would receive was not satisfactory under the conditions, as you understood them, the market then forced you to retain your interest in grain absolutely until the time comes when your judgment believes a satisfactory time? A.—I might say this in regard to the speculation; I never have bought more option than I have sold cash, usuallly a little less.

By the Chairman:

Q.—Have you ever dealt in futures beyond your difference from the actual cash transaction? A.—Never have.

Q.—So that it is in connection with your cash transactions that you have come into the market? A.—That is all.

Q.—You would not say you are a representative farmer in that respect; you are doing something different from the general rule? A.—I don't know that I am. I know a good many farmers in our locality that do this—I don't say a good many, a few of my neighbours.

Q.—Not the majority? A.—No, I believe not.

Q.—What do you do with the future you bought; do you hold it right through to the fall, or sell it? A.—If we think we have got a profit, and if our judgment is that perhaps that is all we can get, then we take it. Sometimes we would make more by holding, sometimes we have been successful by selling when we did.

Q.—Do you mean your cash wheat or the futures? A.—The future; it is not necessary to carry it.

Q.—So that you do not really buy the future automatically and hold; you use your judgment as to when you get rid of it? A.—Certainly.

Q.—The majority of the years you have followed this course? A.—Perhaps half of the years since we have been in the country we have done that.

Q.—You then use your judgment about how long you hold the futures? A.—Yes.

Q.—The other half of the time you sold your cash wheat? A.—Yes.

Q.—What proportion of those years have you been sorry that you sold your cash wheat? You have told us that three-quarters of the years in which you have bought futures you have not done badly; what proportion of the years in which you sold your cash wheat have you been sorry? A.—Not very many, because when we decide the price is right, and we take that price, we make up our minds to accept that price, and we are not sorry. There are years we would have made money by buying on option when we hadn't, years that we have laid off the market when we should have bought May. There have been years when we should have laid off and we didn't; my judgment is not infallible.

Q.—There are three possible courses: You can either sell for cash and have nothing whatever to do with futures; or you could hold for a specified date and have nothing to do with the futures; or you can sell and buy futures? A.—Yes.

Q.—Couldn't you go back over your records and see what would have happened for the last twenty years if you had followed each one of those courses systematically, and which has come out best; couldn't you tell the price of selling for cash and the price of futures, and the result of holding to a particular date, and give us a statement showing what would have been the result. A.—I haven't figures; I couldn't do that.

Q.—We in England are familiar with the tipsters who show what would have been the result of putting a pound on all the horses that they had backed. A.—Oh, yes.

Q.—And that is a piece of arithmetic on the past. Couldn't you give us a piece of arithmetic on the past under those three heads, and show what would have been the result of taking those three courses? A.—You mean if I had summed up for those nineteen years?

Q.—Supposing that every year you had sold for cash; that is one result. Supposing that every year you had held to a specified date and paid your costs and other charges in the meantime; that is another result. And that every year you had sold for cash and bought futures and held them. A.—I haven't kept those figures; I couldn't give them to you.

THE CHAIRMAN—Is it impossible to have a representative case worked out, Mr. Pitblado?

MR. COMMISSIONER EVANS—Not impossible to get figures of the relationship of the prices in the autumn months to the May prices.

MR. PITBLADO—We are getting a chart prepared, leaving out the controlled years —that is those years when it was under control. That will show the prices in fall as compared with the prices in spring.

THE CHAIRMAN—Put it in a concrete form that even I can understand what would have happened to those three farmers, if they had followed each of those courses.

MR. PITBLADO—I don't think that can be worked out that way. What can be worked out is what happened all through those years as compared with prices in the fall and prices in the spring months.

MR. COMMISSIONER EVANS—That would not meet this particular case, because Mr. Baxter used his judgment, and he might sell his May futures in December.

MR. PITBLADO—That is impossible to work out.

THE CHAIRMAN—That is the incalculable feature. I want to assume three farmers, each of them doing those three things automatically.

MR. COMMISSIONER EVANS—If they did automatically what Mr. Baxter did, they would be automatically exercising their own judgment.

MR. PITBLADO—All we can show you from the charts is selling in the fall and holding to the spring.

MR. COMMISSIONER EVANS—Holding till May, but not exercising judgment in the meantime as Mr. Baxter does; that is the incalculable element. He can't go back over the past and be wise after the event.

MR. PITBLADO—The prices vary every day all through to May; one man might pick a high time and another man the low time.

THE CHAIRMAN—I was interested, Mr. Pitblado in what would have been the automatic result of those three rigid courses as for a specified date. I think if you give me the figures I can work out the three farmers for myself. I may do it wrong, but I think I can do it.

MR. PITBLADO—I think the figures can be obtained, but not the factor that is not constant.

THE CHAIRMAN—Obviously.

By the Chairman:

Q.—What proportion of the wheat belonging to the farmers that you know in your district in the elevators is being carried by them at their own risk? A.—That would be a very hard question for me to answer.

Q.—Is it large or small? A.—All I could speak of would be my immediate vicinity. I don't think it is large at the present time; I think the farmers are fairly well sold out in our immediate neighborhood.

Q.—Do they generally carry a considerable proportion of the wheat? A.—I don't think so; they sometimes carry it for a month or maybe two months.

Q.—Is that all? A.—That frequently happens, I think you will find, and they eventually sell it.

Q.—Would you think that three or four or five months after the harvest that there would be fifty per cent of the wheat in the elevators belonging to the farmers at their own risk being carried by them? A.—Anything that I would say would be only a guess as to that. I don't believe there would be over thirty or forty per cent. That is only a guess.

Q.—Would it rapidly diminish as the months go by? A.—I think they do that; you find when you talk to the farmer, he says, I have sold.

Q.—In what months do they fill up the elevators? A.—In the beginning of September, and October and November.

Q.—Supposing you had a rapid bull market in the futures market in February, would there be a tremendous lot of farmers' wheat unhedged that would come out rapidly to be sold? A.—In February a good many of them would have their wheat yet, and the chances are they would unload if the price went up some.

Q.—Would you say fifty per cent of the whole? A.—That would be as good a guess as any; it would only be a guess on my part.

Q.—You can't throw very much light on the extent to which the farmers would be carrying wheat in February? A.—No, I cannot.

MR. PITBLADO—We will try to give you some figures on that.

MR. COMMISSIONER EVANS—Would you like figures as to the amount remaining in the country on farms at that date? You see the farmer may not have delivered to an elevator at all; he would still have it on his farm.

MR. COMMISSIONER BROWN—Over and above his seed.

MR. COMMISSIONER EVANS—When you come to the end of January, on the average 85 per cent of all the deliveries of the year have been made, but there is still 15 per cent remaining on the farm.

THE CHAIRMAN—I think any figures like that would throw light on the extent that the farmers are speculators.

MR. SWEATMAN—I am getting from the Board of Grain Commissioners statistics showing the quantity of special bin grain, and subject to grade and dockage grain, held in the elevators.

By Mr. Pitblado:

Q.—Am I correct in this, Mr. Baxter, that you believe that the existence of the futures market has given you as a farmer a better price than you would have received without? A.—I think so.

Q.—You were asked about your neighbours' wheat, whether they are holding wheat or not. Are quite a large number of your neighbours members of the Pool up around about your place? A.—I suppose probably fifty-fifty.

THE CHAIRMAN—Pardon me for interrupting, Mr. Pitblado. I think as a matter of procedure it would be better if leading questions only come from here, and if you only conduct the examination in the ordinary judicial way.

By the Chairman:

Q.—What percentage are pool members? A.—In my neighborhood?

Q.—Fifty-fifty, I think you said. A.—Yes, I imagine.

Q.—The pool farmer of course couldn't hold his own grain. I mean it is turned into the Pool, being handled that way? A.—Yes.

C. H. G. SHORTT (called.)

By Mr. Hoskin:

Q.—What is your position, Mr. Shortt? A.—President of the Canadian National Millers' Association.

Q.—Where do you live? A.—Montreal.

Q.—How long have you occupied your present position as the president of the Canadian National Millers' Association? A.—For two and a half years.

Q.—And prior to that what was your occupation? A.—I was general manager of the Dominion Flour Mills.

Q.—For how long? A.—Five years.

Q.—You have, I believe, prepared a statement that you would like to read to the Commission on the question of the Miller in the Futures? A.—I have.

MR. HOSKIN—This is a very short statement.

THE CHAIRMAN—We will mark this for reference as Exhibit No. 14, Statement by C. H. G. Shortt.

By the Chairman:

Q.—Will you read it, please?

MR. SHORTT—Inasmuch as in normal years the milling industry of Canada buys and grinds a quantity of wheat approximating 80 to 90 million bushels, it is obvious that the employment of the "futures" market is one of extreme importance to the industry.

The millers are not speculators in wheat, but are purchasers of wheat which they merchandise in the form of flour. It is necessary for them to carry large stocks of wheat in their mill elevators in anticipation of business and it is their practice to hedge this wheat by assuming a quantity of options equivalent to the amount of actual wheat they purchase and hold.

The preponderating proportions of wheat bought by the millers is purchased from the grain dealers and the mills take over from the dealer a quantity of short options equivalent to the quantity of wheat purchased.

Thus there is in actuality no depression of the market arising from millers' hedging operations, as it is merely a transfer from the dealer to the miller or the liability in an already established hedge or short sale.

In view of the fact that all wheat purchased by the miller is bought for the one purpose, viz.—to be ground and sold as flour, it naturally follows that the miller is a daily potential buyer of "futures" in direct relation to the amount of his flour sales.

That proportion of the wheat which the miller does not buy from the dealer is bought at the mill's country elevators, and in such cases the miller would protect himself by hedging by a short sale, except at such times as his orders on hand for flour were in excess of his wheat stocks, in which case the cash wheat he purchased would have its hedge or protection already in the orders for flour on his books.

The "futures" market is an imperative necessity to the miller as a protection to him in his legitimate trade. The miller is always quoting and selling for future delivery and

has no other form of insurance available, either for his future trades or his current stocks, other than the hedging possibilities the "futures" market affords him.

From the standpoint of the miller, there are various reasons why hedging is essential.

1. The protection it affords against decline of price, which risk it would be impossible for the miller to assume in relation to the heavy stocks of wheat he carries.
2. The degree of accommodation the miller would receive from the bank against stocks of wheat carried would be adversely affected if value of the wheat was not given the partial insurance which the hedge affords.
   If this bank credit should be restricted, the millers' operations would have to be curtailed and stifling of the millers' export operations would narrow the wheat market greatly.
3. A considerable proportion of the export flour trade is on basis of sale for future delivery.

   The purchase of wheat in a future position is in such cases an imperative need to the miller.

Some form of insurance against possible decline in value of wheat stocks carried must be available to the millers—otherwise the risk to capital would be out of all proportion to the possible profits from operations.

There is no insurance available at present time other than by hedging in the "futures" market. If hedging were to be made impracticable some other form of insurance would have to be devised.

There is generally to be found iindividual or syndicated wealth willing and ready to assume a speculative risk with the possibility of profit attached—and with the elimination of futures trading on the Exchange, doubtless insurance against risk could be found somewhere by the mills.

Such a new form of insurance, however, inevitably would be more costly than the insurance they now effect in grain "futures".

In the event of such insurance being unobtainable, the millers would have to assume their own insurance risk.

In either case it would have but one effect. It would have the result of a lesser return for his wheat to the producer, as the price he now receives is undoubtedly higher than it would be if the purchaser was not in a position to ensure himself against risk of decline by hedging in the "futures" market.

To my mind, therefore, the protection afforded to the purchaser of wheat by the option market, results in a higher level of price to the producer than would result if this protection should be removed.

By Mr. Commissioner Evans:

Q.—In this very comprehensive statement, Mr. Shortt, are you representing the views and the practice generally among millers? A.—I speak for the millers. A very large proportion of the millers is represented by the Canadian National Millers' Association, at least eighty to eighty-five per cent of the total of Canada.

Q.—And you put this in as in your judgment representing the views and the practice? A.—Most decidedly, sir.

Q.—The central point being that to conduct the milling trade or milling business, it is absolutely necessary for you to have insurance against risk of change of price provided in some way? A.—It is absolutely essential. Without it we could not carry the stocks in anticipation of business. No mill has sufficient financial reserves to carry the risk.

Q.—And if you have to get it in some way and you have found the futures market a satisfactory form of insurance? A.—Most decidedly so. The cheapest obtainable and the only one obtainable I know of at the present time.

Q.—It has been an effective insurance for you? A.—Partially. It is not a complete insurance, but it is the greatest amount of protection possible to obtain.

Q.—You refer at one point here to your taking over a quantity of short options, and that does not involve another pit operation? A.—It does not.

Q.—But, as a matter of fact, a new purchase and sale would be put through the Clearing House, would it not? A.—The entry would be made in the Clearing House, I surmise. I don't know the details of the Exchange, but ours is not a new transaction. We assume the old position of the man from whom we purchased the grain.

Q.—There has been only one hedge outstanding from the position held by the country elevators and then by you? A.—Exactly.

Q.—But in the method of arrangement in the Exchange, as we have had evidence before us, a sales slip would be put through in the meantime and in the total volume reported by the Clearing House there would be double the transaction that really took place? A.—I really cannot answer that question, sir.

Q.—Now you refer to making sales ahead. I suppose you might get some enquiry from some distant part of the world? A.—Practically every quarter of the globe.

Q.—Asking you to quote a price today at which you could deliver flour six months hence? A.—Yes. At the present time we are more likely to get an enquiry for May, June, July and August.

Q.—At that time you probably have not already purchased and have in your mill bins the wheat out of which to make the flour to fill that order? A.—That expresses it, sir.

Q.—And yet it is necessary for you to be able to quote a definite price today to that enquiry with regard to flour? A.—We must do so to compete with the world.

Q.—And in that case, as I understand from this, what you do is to make a purchase of that quantity of grain in the futures market? A.—If we get the order, yes.

Q.—And you quote on that price? A.—Quite right. We quote on the basis of the option today, on the market today, and if we get our order for August delivery we purchase our future. But all our purchases are to take delivery, you follow me, of the wheat.

Q.—And the fact that there is a futures market which establishes the price, and the fact that you can make purchases in that market to protect that price, puts you in a position where you can quote firm on an order for future delivery. A.—It is the only method by which we could quote firm.

By Mr. Commissioner Brown:

Q.—So that I gather everybody has to be insured; the grain dealer has got to be insured in carrying the grain from the farmer, the miller has got to be insured in buying grain and transporting it and holding it in his warehouse until he gets it into flour, and the importer of the manufactured flour in the markets of the world has got to be insured until he can sell? A.—No. I don't think the last statement is correct, sir.

Q.—Is that not so? A.—I think not.

Q.—How does he guard against loss? A.—Generally speaking, the importer overseas does not buy until he has effected sales.

Q.—He has effected sales before he buys? A.—Yes, generally speaking.

Q.—Then how does the man to whom he sells take care of the risk? A.—He sells to the ultimate consumer, I suppose, it is a matter of merchandise.

Q.—The ultimate consumer, of course, does not protect himself at all. A.—Well, I think he finds his protection in the price at which the last purchaser sells. He is unable to hold things above the parity of value. The man who really holds the bag is the man who is in the legitimate business, purchasing flour overseas which he has to sell, in the event of a decline in world's value at the sale. Most of these flour importers on the other side of the water really deal with the miller on the basis of offers they have to have on any given day. Then that flour goes into consumption to the overseas baker, from the importer to the baker. I cannot follow the line any further than that.

Q.—Is there any form of insurance that will take care of risks of that character rather than this form of insurance by way of hedging that seems to be based on the gambling instinct of a gullible public? That is the way it seems at the moment. A.—I am not agreeing with you, I am sorry. There is this fact, that the miller is only partially insured when he quotes for the future. He is confronted with other considerations than the cost of his wheat. He is confronted with the possible varying condition of the feed market. There are various factors. Even exchange in the past, to our knowledge, has varied very considerably. There is more than one reason. He has only a partial insurance, and, moreover, he has not a definite insurance in the hedging, because there is absolutely no guarantee in regard to cash premiums.

Q.—He does not want to take any risk at all, the miller? A.—But the miller does take risks. I have tried to explain the risks are multifarious and he could not possibly sell the quantity of wheat in the manufactured form of flour to the extent that he does, unless he was fairly well assured of what the price of wheat was going to be when he quotes for his forward sales.

Q.—What I am trying to get at is this—have you ever studied the possibility of any other method that would be a more legitimate form of insurance than this? A.—Yes, I have. I have considered what would be the alternative to purchasing futures. We would have to insure, or otherwise not do business. If we did not do business on the basis that the world does it, the United States would still be doing it and the Argentine would still be doing it. You may stifle and strangle the futures market in Canada, but you cannot stifle and strangle it elsewhere. You would be quite ultra vires. It would still remain there.

Q.—I am not thinking of stifling or strangling anything at this point. I am simply trying to find——. A.—The only possible insurance we could possibly have would be some form of insurance to which I had referred in that letter. There is always an individual, or syndicate of the Lloyd type, who is willing to insure any type of risk. We will have to take such insurance and that insurance would be prohibitive in cost, would put us out of the world's competition, unless we paid less for the wheat. You cannot add and add to your costs and still remain in competition.

Q.—Just a minute. Have you ever endeavored to find out what the cost of such insurance would be. A.—No, I have not.

Q.—Well, possibly you may be mistaken. Have you consulted Lloyd as to the possible cost of insurance? A.—I don't think I am likely to find myself mistaken in such a contingency.

Q.—As I understand it, your argument is that it is not impossible to find other forms of insurance, but if you had to find other forms of insurance you would have to pay a higher premium? A.—I could not say whether it is possible or impossible to find

other forms of insurance. I have suggested a hypothesis. There might be other insurance available, but whether that other insurance were available or not, I think it would mean a lesser return to the producer, because of the cost.

Q.—You would have to pay a higher premium? A.—That is my surmise.

By the Chairman:

Q.—What is the average length of time that you carry wheat in your mills? A.—Well, sir, it depends upon the location of the mill. There are mills situated East of the Great Lakes, we will say, in Montreal, or the Bay Ports, and inasmuch as they wish to remain in competition with the world through the winter months, they have to have that wheat at the minimum transportation costs. In consequence they bring across very heavy quantities of wheat in the fall to the Bay. They have brought that wheat with absolutely no forward sales of flour, but in the anticipation and hope of sales. The financial resources of the mills would have to be almost illimitable to carry all their future requirements at the Bay.

Q.—The question is really what is the actual average period? A.—Quite a few mills bring over to the Bay in November, East of the great lakes, enough wheat to carry them over through to the opening of navigation. To give a specific illustration, the mill of which I was the general manager had a grinding capacity of 6,800 barrels a day, consumption of 27,000 bushels of wheat per day. I have brought over as much as 2,000,000 bushels of wheat in the late fall before the close of navigation, which I have had to keep in forward position. I could not possibly assume the risk of a market decline. These hedges would be lifted day by day as I succeeded in effecting flour sales.

Q.—You get rid of the hedge the moment you get your sale fixed? A.—Yes, generally speaking. Of course, a mill does encounter most of the time, a good proportion of the time an upturn market, by reason of the fact that buying is largely sentimental.

Q.—It effects the sales even of flour? A.—Yes.

Q.—You never sell wheat as such? A.—We never sell wheat as such except odd quantities of feed, generally to the local trade.

Q.—I am still not quite clear what that average period is, but I assume that if there were no futures market the average would be much shorter? A.—The average would be much shorter. It would militate against all possibility of it running anywhere near to what it is now.

Q.—You are able now to stock your wheat with two conveniences; one, the transport convenience, and the other what you might call the manufacturer's working cost convenience. It may cost you a little money to hold your wheat for a certain length of time, but those two conveniences offset the cost? A.—Quite right, it is cheaper in the long run.

Q.—If you had no hedging system, you would not want to carry the risk? A.—Quite right. And we could not possibly do the volume of business on such a basis.

Q.—You would work either entirely for orders? A.—Quite right; hand to mouth.

Q.—Or you would carry as little as possible? A.—Quite right.

Q.—And throw the risk back on to somebody else? A.—Quite right.

Q.—But the result of that would be that your manufacturing cost would be higher and your transport conveniences would not be as well served? A.—Quite right.

Q.—So the ability to take the futures means that the wheat can be moved at the time when it is economically least costly to the consumer; is that right? A.—Exactly expresses it, sir.

Q.—What proportion of your trade falls under this paragraph of your evidence where you say: "Except at such times as his orders on hand for flour were in excess of his wheat stocks, in which case the cash wheat he purchased would have its hedge or protection already in the orders for flour on his books."? A.—Well, I would say that that is, generally speaking, only the case soon after the close of the fiscal year of the mills. Just prior to the end of the fiscal year of the mills, they naturally reduce their wheat stocks as much as they can.

In the start of a new crop, however, they are bringing in their wheat and they are selling in the heavy purchasing months. And it might happen just at that period that their actual sales would be in excess at the moment of the wheat that they had purchased, and until that situation was remedied they would be buying. But it would be a very brief period in relation to the whole.

Q.—Are the orders for flour very uneven and spasmodic? A.—Very.

Q.—They don't follow a definite line? A.—No.

Q.—Why is that? Is it because somebody down the chain has got to be a speculator? Everybody up to your point has ceased to be a speculator. A.—No, sir. From Canada's standpoint it is affected considerably by the crops of other countries, Argentine, Kansas, etc.

Q.—Somebody is watching very closely the right time to buy flour? A.—All the time.

Q.—Who is taking that speculative risk? A.—Frankly, I do not know. I don't think it follows that there is a speculative risk to be deducted from the spasmodic sales of flour in Canada. The Canadian flour is used in no quarter to make a loaf per se. It is used as an admixture with other flour.

Q.—The risks at that stage are in some common marketing association; they are all assembled? A.—Yes. And therefore, they cancel each other out.

Q.—The user of the flour is rather like a cricket team, they cannot rely on the same man scoring every time, but they can rely on a certain score from everybody? A.—Quite right.

Q.—So the risk disappears by common pool? A.—Common wash-out, yes.

Q.—I was wondering where it could rest. It does not come right on the consumer. The consumer does not stand the fluctuation in the price of bread every day? A.—No, competition precludes that.

By Mr. Sweatman:

Q.—How many mills are there in Canada? A.—I have not my figures with me. I could get them. There is an alleged capacity amounting to, roughly, one hundred and thirty-seven thousand barrels per day, which includes grist mills and smaller mills.

Q.—What would be the value of the export trade? A.—The value of the export trade in a normal year would be ten to eleven million barrels per annum. The value ranges anywhere up to $50,000,000.00.

THE CHAIRMAN—Mr. Pitblado?

MR. PITBLADO—Mr. Chairman and members of the Commission. I would like to call Dr. Boyle.

DR. JAMES E. BOYLE (called).

By Mr. Pitblado:

Q.—You are a Doctor of Philosophy? A.—Yes.

Q.—I understand you are professor of Rural Economy at the New York State College of Agriculture, connected with Cornell University? A.—Yes.

Q.—Of Ithaca, New York? A.—Yes.

Q.—How long, professor, have you been connected with the subject and line in which you are now engaged? A.—About, since 1904. Twenty-seven years.

Q.—Where did you study, Dr. Boyle? A.—In the University of Nebraska for four years; in the University of Kansas for two years; in the University of Wisconsin for two years.

Q.—And then after that what did you do? A.—I was professor of Economics in the University of North Dakota for twelve years. I was one year at the State Agriciultural College, Fargo, North Dakota, as field agent in marketing, with the United States Department of Agriculture and the College jointly, studying the country elevator. Then I was one year with the United States Department of Agriculture in charge of a grain trade investigation covering terminal markets mostly, and after that I was at Cornell University for the past thirteen years.

By the Chairman:

Q.—Just to enlighten me, we haven't that Rural Economy in England. You might tell me what that covers? A.—Rural Economy is sometimes called agricultural economics, or farm economics. It is political economy applied strictly to agricultural subjects.

Q.—Is it political economy with a dash of agriculture, or agriculture with a dash of political economy? Or is it really a combination of the two? A.—Yes, it has a decidely agricultural slant to it.

By Mr. Pitblado:

Q.—You mentioned you were for one year, I think you said field agent? A.—Yes, that is the name used in this business for a position in which you are employed jointly by a College of Agriculture and the Federal Government doing nothing but research, no teaching, but field study and research work.

Q.—Where did that field study take you? A.—That was confined to the State of North Dakota.

Q.—Were you studying in that year then the marketing operations in that State of grain? A.—Yes, the time was given almost entirely to the grain trade as it applied to the country elevator question.

Q.—Then the next year, I think you said, you spent in some other field operations? A.—Yes, I was then with the United States Department of Agriculture on the subject of field agent and marketing, in charge of a group of men studying other aspects of the grain trade, taking the grain from the country elevators to the terminal markets, and into export.

Q.—I believe you are the author of a number of books or pamphlets, Dr. Boyle? You have issued a number? A.—Yes, text books mostly.

Q.—I see from what I have before me that you are the author of a book called "Agricultural Economics"? A.—Yes.

Q.—"Marketing of Agricultural Products, etc."? A.—Yes.

Q.—Are your books used as text books? A.—Yes, they are used in quite a number of colleges.

Q.—With that, Dr. Boyle, I would ask if you have a statement prepared in connection with the matter before this Commission? You just got in this morning? A.—Yes.

Q.—And no one, I understand, here has seen your statement? A.—No.

Q.—And it is your own, and it comes to the Commission just as you give it? A.—Yes.

THE CHAIRMAN—It hasn't been suitably edited by counsel?

MR. PITBLADO—None of those sitting here have seen it, Mr. Chairman.

By the Chairman:

Q.—Are you going to put the statement in, or read it? A.—I thought I would read the statement, and then I would comment on it.

Q.—Have you many copies of it? A.—I have three copies.

(Statement of Dr. Boyle referred to, produced and marked EXHIBIT 15.)

Q.—Are you going to read this all, or just refer to portions of it? A.—I think I will read the statement if it does not take too much time and in case questions are asked I will try and answer them. There are certain parts of this I will only summarise.

THE CHAIRMAN—Have you many other witnesses, Mr. Pitblado, this afternoon?

MR. PITBLADO—After Dr. Boyle is through, I promised to put in some charts that we have, but they will not take long.

THE CHAIRMAN—Are there any other people present intending to ask for permission to give evidence?

(No answer.)

THE CHAIRMAN—There does not seem to be a rush on your time.

MR. PITBLADO—Someone mentioned to me at noon, I think it was Mr. Sweatman, that someone wanted a witness in regard to the working of the futures market.

MR. HOSKIN—Privileges.

THE CHAIRMAN—I want someone to appear who will tell us a little more about the privilege market.

MR. PITBLADO—We have here this afternoon a witness who can give evidence on that subject. It is difficult for him to be here in the morning, but that witness will be here, and if there is time after Dr. Boyle is through I will call him.

MR. COMMISSIONER BROWN—There was a special invitation issued last night to the producers and the farmers. We specially requested that they appear. We want to hear their side of it, if they have a side at all. I was wondering if there was any response.

(No answer.)

MR. SWEATMAN—I have only had one farmer come forward and he was in the box this morning.

By the Chairman:

Q.—Dr. Boyle, some of this statement of yours won't need reading absolutely as it stands. You can just summarize it. A.—Yes, I will summarize quite a good deal of it.

Q.—When you see us looking tired, perhaps you will know when to stop.

DR. BOYLE—Futures trading, in the modern sense of the word, has been in use on the oragnized commodity exchanges in all commercial countries of the world for about 75 or 80 years. Futures trading in its most highly developed form, especially with its modern clearing house system, has been in use some twenty or thirty years. Now we have organized exchanges where trading is carried on in all the great raw products of the soil, such as grains, cotton, coffee, sugar, silk, rubber, cocoa, and so on. In the brief time at my disposal I will answer two questions on futures trading, namely: "What are the main services of futures trading? What effects does futures trading have on the price the producer receives?" After answering these two questions I will draw certain conclusions concerning the regulation of futures trading.

QUESTION ONE—WHAT ARE THE MAIN SERVICES OF FUTURES TRADING?

There are many major and minor services of futures trading, but for our purpose I will consider its main function or two, namely (1) the price barometer service, and (2) the hedging service.

PRICE BAROMETER—On the wide, open and competitive market, furnished by the modern commodity exchange, buying and selling orders meet and a price is registered. The price is registered by the exchange, but is not fixed by the exchange, the exchange is merely a price barometer.

The wider and more liquid this market is the more correct is the price so registered. Price or value, we must remember, is not a definite objective or fixed thing, but is rather a market opinion, or concensus of opinion, based on known facts and on estimates and forecasts, and of course, changing with new estimates and forecasts, based on new facts. On the exchange the price or value is registered, and so I say the exchange serves as a price barometer. It is, in fact, our best price barometer. It is a highly important service to all grain interests to have each day definite quotations of grain values, not merely current values but values for the next few months of the future.

The accuracy of futures trading as a price barometer is well known to students of the grain trade. I will cite but one example, but it is typical.

I have selected ten normal years, free from wars or disturbances, because no exchange can forecast a war, which, of course, disturbs prices. The question asked is, "Do the buyers who buy May wheat futures in the month of December accurately forecast the

price of May wheat which is realized when the delivery time comes in May"? By taking these statistics from the Chicago Board of Trade for ten normal years we find that the forecast which the future is of the later cash is within less than one cent of the actual price, or stated in terms of percent, it is something like 99% correct. Now, these years were selected because there was no great disturbance, such as a war, to disturb the barometer. If we would take other normal years we would get about the same results.

HEDGING—Passing on to the hedging question, which I will cover very briefly. The hedging function I regard as the second major service of futures trading. The purpose of hedging is to protect profits, limit losses, and safeguard bank credit. Hedging does all three of these things. As price insurance it does not furnish 100% coverage, for no form of insurance is supposed to do that. I do not need to add to what has already been said here regarding the value of hedging in giving stability to investment, in lessening the risk, and so in lowering the handling margins on wheat. Hedging is now used chiefly by the country elevators, the line and terminal elevators, the exporters, and the flour millers and other grain industries.

There is just one question on hedging I desire to leave before the Commission, namely: How wide a market is needed to provide ample hedging facilities? It is my conviction here that a hedging market must be made up of at least 50% pure speculation. There is no use to shy at this word speculation. Much of this blanket condemnation of all speculation is, I am firmly convinced, mere idle nonsense, bordering on cheap claptrap. The question, Shall somebody speculate in farm products? has already been answered in the affirmative. The essence of speculation is risk bearing. As long as the farmer grows wheat at one place at one time, and this wheat reaches the consumer's mouth at some other time and some other place, there are and always will be risks involved. These risks are inevitable economic risks. They are speculative risks. Speculations in wheat therefore, may be shifted or distributed or partly reduced, but never can be eliminated.

A good example of speculation in wheat by the farmer I may cite from my own experience. The last year I helped grow a crop on the Kansas wheat farm where I was raised, we had a bumper crop of very fine wheat. The price at threshing time was 90 cents. My father said this wheat was worth $1.00 and decided to hold for $1.00. We held for two years and sold for 80 cents. We had simply speculated in cash wheat and lost. Nominally we got 80 cents for the wheat. But I know now, by the studies made by farm economists, that a farmer cannot possibly carry his wheat for less than 1½ cents per bushel per month. So we had a carrying charge of 36 cents against our wheat. We did not net 80 cents; we netted only 44 cents as the result of our holding policy, which was a speculation pure and simple. If we really meant to speculate, then we ought to have gone into the futures market, and our losses would have been only 10 cents a bushel.

He who assumes the risk speculates, whether he does it voluntarily or involuntarily. Speculation by the competent, by the fit, is a legitimate and useful thing. The futures market merely harnesses this force called speculation and puts it to work for some useful purpose. Speculation in farm lands, town lots, gold mines, oil wells, and so on is mostly dissipated in thin air, or does not serve society. Organized speculation, under the strict and open rules of the grain exchanges does help furnish the wide, liquid, continuous market which is essential to legitimate hedging operations.

I come now to the second aspect of my statement namely, to the question of the influence of futures trading on the price received by the producer.

QUESTION TWO—WHAT EFFECT HAS FUTURES TRADING ON THE PRICE RECEIVED BY THE PRODUCER?

It is almost unanimously agreed by economists of all countries that futures trading has two effects on the producer's price: By lowering the middleman charges it increases the amount of money received by the farmer. It stabilizes the price by putting on the brake against severe bulges and breaks in price. Since these two effects are very important to the farmer I desire to present some supporting evidence.

Raises Price to the Farmer—Why is wheat now handled at the lowest cost of any agricultural commodity? The answer is, chiefly because the price insurance feature of the futures market enables the middleman to work in comparative safety on a low margin. Contrast hay and wheat. Both are standardized non-perishable commodities. Yet the brokerage fee or commission charge on selling hay is many times that for selling wheat. Mr. P. E. Goodrich, president of the National Hay Association of the U.S. comments on this fact in these words:

"Every man that handles hay from the producer to the consumer speculates largely and takes great chances as there is no way in which he can hedge his trades. For this reason the fluctuations of the market are large and often a few days will show a variation of values from 25% to 50%."

(Reference—Nineteenth Annual Report of the President of the National Hay Association, at the Kansas City Meeting, 1912, page 42.)

In the years 1917 and 1918, I was employed by the Federal Government of the United States to make a study of the grain trade. In the course of this investigation I discovered that in our Northern States country elevator managers were financed by terminal market commission merchants, and these commission merchants required the country elevator managers to hedge. In the Middle States, such as Kansas and Iowa, I found the country elevators were largely financed locally and were not required to hedge and many did not

hedge. In these Middle States I found that the country elevators, due to this non-hedging policy, had larger speculative losses and larger speculative gains, and they also did business on a larger margin—that is they paid the farmers less.

The same principle is illustrated by wheat and barley—wheat with a good hedging market—barley with a very poor hedging market or generally no hedging market at all.

I might say "barley quotations" are purely nominal in Duluth and Minneapolis, and so there is no hedging market for barley.

The margin on barley averages three times the margin taken on wheat. I can give an example of this significant truth by going back to my own field investigation for the U.S. Government. The narrowest trading margins on cash grain I found at any country elevator was at a place in South Dakota. It was the Co-operative Farmers' Elevator Company of Hartford, South Dakota, under the management of the late Iver S. Henjun. The directors of this company issued a notice covering the buying margins on grain. Their margin was set at 1 cent a bushel on wheat and oats, but at 3 cents on barley. Here was a clear case where hedging in the futures market added two cents to the farmer's price.

That hedging reduces the speculative risks and therefore reduces the handling margin is strikingly illustrated by one experience here in Canada in the year 1917. I refer to the example of the Saskatchewan Co-operative Elevator Association, in meeting the May 1917 crisis in the wheat market. In April, 1917, futures trading in wheat was temporarily suspended in Winnipeg. This farmer elevator group had the choice of two alternatives—buy on a wider margin or quit buying altogether as long as futures trading was suspended. The latter course was chosen and the farmer company stopped buying wheat. The account of this drastic procedure is given in the official organ of this farmer company—The Saskatchewan Co-operative Elevator News, June, 1917, pps. 7-9. Told in their own words, the farmers' story is as follows:—

I will just summarize this statement, as it is quite a long statement, by saying they had the choice of speculating in wheat, which they could not hedge, or not buying wheat at all, and they chose not to buy any wheat at all, and there is employed in their discussion one more alternative, namely, pay the farmer less money for his wheat.

Contrast the Canadian experience with what happened at the same time in the United States. At this time I was investigating the grain trade and I found one country elevator in North Dakota which increased its buying margin to 50 cents a bushel during this period when hedging in the futures market was impossible. In other words, it hedged, by paying the farmer fifty cents less. This is a good example of who would bear the risk if hedging in futures was no longer possible.

Stabilizes the Prices—The second effect of futures trading on farm prices is to stabilize these prices. Futures trading does prevent sudden and violent fluctuations in price by putting on the brake. Evidence of various kinds can be produced to prove this statement.

If we compare price fluctuations under futures trading with those before the days of futures trading we see at once a vast difference. Fluctuations of ten cents a bushel in one day are about as common now as fluctuations of fifty cents a bushel in one day then. Of course part of this greater price stability is due to our better communication and transportation; but part of it is due to futures trading. On this point practically all marketing economists are agreed.

The Garfield Report on futures trading in Cotton, made by the U.S. Commissioner of Corporations in 1906 and 1907, was the most comprehensive study on that subject ever published. Futures trading in cotton and futures trading in wheat have exactly the same economic effects on price. The Garfield Report found that futures trading in cotton prevents sudden and violent fluctuations in price.

We may turn to the testimony of economists the world over who have studied this subject, and they are in almost unanimous agreement on the stabilizing effect of futures trading on price.

I might supplement that by referring to one British authority, James Ellison, of the Liverpool Cotton Association, who, in discussing the growth of cotton, states that the costs of handling cotton were thereby greatly reduced.

By the Chairman:

Q.—I suppose you will agree that the elasticity of demand by the consumer for cotton is very different from that of wheat. You are comparing cotton and wheat but when it comes to the elasticity of demand on the market I take it they are very different? A.—Not that they are more elastic than staple commodities, such as bread and meat. Most of the economists agree that the organized staples are very elastic, very fluctuating. I am convinced that the demand is elastic.

Q.—You agree that you are differing from other economists? A.—Yes, and particularly from Sir Wm. Ashley, of Great Britain, on that subject, but I think the evidence is overwhelmingly in favor of the elasticity. We see it in the demand for wheat in Europe this last year; how it fell off on account of substitutions and other things of that kind. I do not want to go into that subject but if we check up on meat and bread we know they are very erratic and fluctuating.

Q.—That is they are using other things instead of wheat and consequently that there would be a lesser demand for wheat? A.—Yes.

Q.—Would that also apply to cotton? A.—Yes, because they have shifted to rayon and other things. I will pass that over because that is simply opinion.

In a recent law suit before the U.S Supreme Court on the Grain Futures Act, affidavits were filed by the following twenty-two economists, each declaring his belief that, with infrequent and minor exceptions, futures trading has a marked tendency to stabilize prices.

Alphabetical list of 22 Professors filing affidavits with the U.S. Supreme Court (October term, 1922: Board of Trade of the City of Chicago, et al., vs. Charles F. Clyne et al.) in support of their opinion that futures trading stabilizes price:

T. S. Adams, Yale University; James E. Boyle, Cornell; Charles J. Bullock, Harvard; T. H. Carver, Harvard; John Bates Clark, Columbia; Fred. Emerson Clark, Northwestern; Melvin T. Copeland, Harvard; Fred Rogers Fairchild, Yale; Henry F. Farnam, Yale; Frank A. Fetter, Princeton; Irving Fisher, Yale; Arthur Twining Hadley, Yale; Grover G. Huenber, Pennsylvania; Solomon S. Huenber, Pennsylvania; Joseph French Johnson, New York University; Edwin Walter Kenmorer, Princeton; Roswell C. McCrea, Pennsylvania; Wesley C. Mitchell, Columbia; Robert Riegal, Pennsylvania; E. R. A. Soligman, Columbia; Abbot Payson Usher, Harvard; Allyn A. Young, Harvard.

In this same lawsuit there were filed quotations similar in meaning to the affidavits just mentioned from the writings of four of these economists, and from the following additional economists:—

Paul LeRoy Beaulieu, France; Richard T. Ely, University of Wisconsin; H. C. Emery, Yale; Benjamin H. Hibbard, Wisconsin; Paul W. Ivey, University of Nebraska; Otto Johlinger, Germany; Louis Perlmann, Germany; John George Smith, University of Birmingham, England; F. W. Taussig, Harvard; L. D. H. Weld, Yale; George Wermert, Germany.

THE CHAIRMAN—What year was this lawsuit? A.—This lawsuit was in 1922. It is my own conviction that the economists of Canada, United States, England, France and Germany, stand at least 100 to 1 in favor of the view that futures trading stabilizes prices.

I would like to elaborate on that, that every one in the market plays two roles: He is either a bear first or a bull first. Whichever one he is, he cannot get out of the one without being the other.

Passing now from opinions back to facts, we may examine the popular fallacy that short selling depresses prices. Of course the general answer is that when A and B sell 1,000,000 bushels short, C and D buy 1,000,000 bushels. The amount bought exactly equals the amount sold. If selling tends to put the market down, buying tends to put the market up. Looking a little more in detail into the effect of short selling on price, we may cite the following evidences:

There are a hundred short sellers in the market today and every day. A week or a month from now these same short sellers will be in the market again, buying back their contracts. What effects on the market does a very large volume of short selling have? Records of the Chicago Board of Trade show that the largest volume of short selling in the whole eighty-five years of that market occurred in wheat contracts on July 15th, 1930. Was the price depressed? No. In fact, the price rose seven cents a bushel. This is rather conclusive evidence that short selling is not the cause of the price declines which occur on the market.

By the Chairman:

Q.—Isn't it possible that if they had not that short selling that the price might have risen three times as much? A.—It might have.

Q.—It is not quite conclusive? A.—I am trying to show it is not the cause of price decline because when they had the largest amount they had no price decline. If there had been no short selling the price would have gone up more than seven cents.

On July 15th, 1930, when total sales of wheat futures contracts amounted to 149,587,000 bushels, the price rose seven cents for the good and sufficient reason that there were more buying orders in the wheat pit than there were selling orders. The buying orders dominated prices, in spite of short selling—and most of the selling was short selling. The buying order, I repeat, dominated the price, and because the greater part of the market information was in favor of higher prices, and the consensus of market opinion was likewise in favor of higher prices. The market news which forced the market higher in the face of the greatest short selling on record was as follows: Heat wave in Canadian and United States spring wheat belt; drouth; little prospect of break in weather condition; export demand stronger than last week; millers in the market in large numbers. But the short sellers had the genuine and correct belief that the prices were too high.

Next day's market was lower, because of rain and cooler weather in Canada. In other words, short selling is a force which is overshadowed by the still stronger forces of world supply and demand.

The Federal Trade Commission spent some eight years making the most complete and minute study of the grain trade that was ever made. With its field force of many trained men, this Commission combed the grain exchanges with a fine tooth comb, trying to find some evidence that short selling depresses prices. I speak the truth when I say this Commission at that time had a strong bias against short selling.

THE CHAIRMAN—I am sorry to hear that any Commission has a bias? A.—That conviction I expressed here was arrived at in this way: The investigation I was asking was a joint investigation of the United States Department of Agriculture and the Federal Commission. We had to pair off in each market where we were. We were thrown together and being on the job one year we came to get the viewpoint of the other side. They had men who were recognized as radicals on this question and who did have this bias that I speak of. It is possibly rather a strong word to use.

Q.—I do not mind you using it here provided you never use it in future about us. A.—In their report, covering thousands of finely printed pages, we read these final conclusions on short selling:

> "No evidence that it has any long run depressive influence upon prices has been found."

"No evidence." That is the verdict. They were looking for evidence; they spent many years in the search; they went through all available records. If there had been any evidence of price depression through short selling, they would have found it. They report, "No evidence."

In December of 1930 a cry went up over the whole commercial world that Russia was depressing wheat prices in Chicago by means of selling short in a wheat pit. Many persons who followed their feelings and not the facts were convinced at the time here was a strong case against short selling. Then came the investigation. A committee of the House of Representatives, armed with full legal power to take testimony under oath, to subpoena documents, and to get at all the pertinent facts of the case, came to Chicago. These investigators were not only looking for evidence but were extremely anxious to find evidence on the depressing effects of short selling. For prices had in fact been declining. Was this decline due to short selling, and especially to Russian short selling? In due time this committee wrote a report and published it as a government document. What did they find out? The committee found that these reported short sales were actually hedging sales against cash wheat on the way to the world's markets. Says the committee:

> "According to the testimony of the officials of the Chicago Board of Trade these transactions in wheat by the All-Russian Textile Syndicate constituted legitimate hedging.
>
> "Based on the testimony presented, the committee is of the opinion that these transactions were made with no intent by the Soviet government to depress the price of wheat."

Under date of October 10, 1930, the Secretary of Agriculture put out letters to flour millers of the country asking confidentially for their real opinions as to the price depressing effects of short selling. Millers who had spent long years in the business replied to him pointing out the necessity for hedging purposes of a wide market which would be impossible without short selling; they pointed out also the fact that when a short is selling a long is buying—when the short sell a hundred million bushels the long buy a hundred million bushels, and the buying has as much effect on price as the selling. They pointed out also that underlying conditions of supply and demand overrule both the short and the long.

"Should short selling be prohibited?" asked the Secretary. "I should be sorry to see such a ruling," replied one of America's greatest flour millers, "as I believe it would be harmful to every interest, from the grain grower to the ultimate consumer. As the years have passed, my experience has led me to believe that the broadening of trading, brought about in various markets through the activities of speculative interests, is beneficial to all interests and certainly not least to the interests of the grain grower."

I might say that this miller was a member of the United States Grain Corporation during the war and he is therefore recognized as an economist and statesman among the millers. I refer to F. J. Lingham of Lockport, N.Y., and I have received a telegram from him giving me his permission to file correspondence on this subject in toto, which I leave with the Commission.

Sometimes markets rise when short sellers are very active; sometimes markets fall when short sales are being made in large volume. But it is not the short selling that puts the prices down. The constantly fluctuating price on the futures market is the world's barometer of grain values fluctuating under the weights of present and prospective facts and estimates concerning world supply and world consumption of grain. The pressure of these facts and estimates makes prices fluctuate. If short selling were eliminated, this pressure would still make prices fluctuate. Before the days of short selling this pressure not only made prices fluctuate but fluctuate much more violently than now. The short seller is not the cause of declining prices. In fact, in a declining market the short sellers keep the decline from going too far because he now turns buyer and covers his previous sales. A large short interest in the market is a stabilizing, not a depressing influence.

Our own Grain Futures Administration, acting under Senate Resolution (of January 8th, 1924), endeavored to connect, if possible, the price decline in wheat during the year

1923 with excessive short selling during that period. Their report shows that there were thirty big short sellers operating in wheat. But on page 6 of this report we see that these thirty big traders were divided almost equally, about fifteen bulls and about fifteen bears. The findings of the report on this point were as follows:

Net Position of Thirty Largest Traders in Wheat Futures,
Chicago Board of Trade, during Year 1923
(At beginning of each month)

Month	Number Long	Number Short
January	16	12
February	14	14
March	14	14
April	13	16
May	16	13
June	17	12
July	16	13
August	15	14
September	18	11
October	18	12
November	16	14
December	14	16

Here we see a fairly even balance between the big bulls and big bears with a slight preponderance in favor of the bulls, yet prices went down, and a U.S. Senator blamed the big shorts for it. This investigation gave the shorts a complete alibi. Prices on the Grain Exchange reflect world-wide market conditions—not the opinions of the short seller, unless the short seller's opinions coincide with these facts.

There are, it must be frankly stated, two kinds of short sales—those that reflect genuine market opinion of the short, and those where the short sells with the object of depressing prices and thereby making a profit. But the Exchanges all have administrative machinery for detecting and punishing anything that looks like a bear raid. And as a matter of fact the newspapers' headlines about bear raids are nearly always misleading. A successful bear raid is an extremely rare occurrence. These raids were quite frequent in the days before futures trading, and were staged by spreading false reports about big market supplies. The Exchanges, in other words, have greatly reduced the evils of the bear raid.

Perhaps the most conspicuous service of futures trading in stabilizing prices is seen in cases of so called "dumping". Personally, I dislike that word "dumping" and its twin, "orderly marketing", because these terms are slogans, and slogans, as you may recall, are substitutes for thinking. To those who have really thought seriously about the subject and frankly faced the facts, it is well known that so called "dumping" of wheat or cotton on the domestic market has no effect whatever on price; and conversely, the so-called "orderly marketing" of wheat or cotton—holding back part of the normal flow till later in the year—is in reality disorderly marketing. Indeed, it is only a high sounding name for speculation by amateurs, and therefore it costs the farmer much money.

Dumping, to repeat, has no depressing effect whatever on the domestic market, as long as there are physical storage facilities for warehousing the receipts, and as long as there is a wide futures market to absorb the hedges of all cash purchases. I have already presented much evidence on this subject at other times and places. I wish to file with my statement today, as exhibits, three booklets of mine, showing that dumping heavy amounts of grain or cotton on the domestic market has no visible effect whatever on price. The futures market is the shock absorber.

The three booklets filed herewith are:—

1.—Wheat Prices and Wheat Receipts in Chicago for Ten Crop Years, 1904—1914. Published in 1923.

2.—Shall we Change our Grain Marketing System? Published as Bulletin No. 3, of the Grain Dealers' National Association, Toledo, Ohio, January, 1928.

3.—Orderly Marketing of Grain. Published as Bulletin No. 4, of the Grain Dealers' National Association, Toledo, Ohio, January 1929.

That complete report I will also leave with the Commission. The first report is that of Dr. Duvel on Grain Futures Administration.

These three little booklets I will also leave with the Commission. They attempt to make an objective study of the effects of dumping by selecting the days of heaviest receipts during the long period of years and noticing what effect they have on prices of grains and cotton. We see no visible effect on price.

By the Chairman:

Q.—I see that two of them were written on behalf of definite trade associations? A.—Yes.

Q.—Would you say the first one is written as an academic exercise? A.—The two are published by the Grain Dealers' National Association. Wheat Prices and Receipts in Chicago was written as a piece of commercial research for the Chicago Board of Trade.

Q.—What was your remit when you wrote that? What were you asked to do? A.—I was asked to make a study of the relation between wheat receipts and wheat prices over a term of years in Chicago to see what effect, if any, there was of the receipts on the

prices. You will note that I do not select the years to prove a certain case. I call it a competitive study because we selected over a period of years all the days of biggest receipts, namely, over a million cars, and days of the lowest receipts, which meant days of no receipts whatever. They gave us the objective approach to the problem. We selected every day of over a million receipts and every day of no receipts at all and published the result of that finding. I have conducted in connection with my class work a great many more studies, more comprehensive than that, but to discover the same facts. I have also had graduate students make that same kind of a study over and over again. They always came to the same conclusion as I did, that dumping of these commodities on the domestic market has no effect on price whatever. It is particularly interesting to take students from the southern states. They have a very firm conviction that the dumping of cotton on the market breaks the price, because they heard the slogan used; but in every case where the southern student has taken the receipts of cotton on interior or terminal markets and put them along side the price the same day, in every case the student has been convinced that there is no connection between daily receipts and price.

Q.—He would not lose any marks if he came to a different conclusion? A.—No, we do not ask students to agree with us. In fact I ask them not to agree if they can.

Q.—We shall judge whether they are tendentious or not, whether you followed scientific lines. One was written for the Board of Trade. They asked you to do it? A.—Yes. I claim it is an objective study for the reason we made no arbitrary selection of our data. We had to take the data as it existed.

Q.—As I say, on the question of how these three things came into existence, the first one was asked for by the Chicago Board of Trade? A.—Yes.

Q.—And the other two, did you write them first without any request and then they were adopted by the Grain Dealers' Association? A.—No, I had a commission to write on these subjects and then I went on the job and wrote them. There was no data supplied by the Winnipeg Grain Exchange because they did not see it.

Q.—What did they want these pamphlets for? For their own information or did they want to use them for publication? A.—For what some would call propaganda and some education. They thought if the facts were known it would help their cause and I believe that view is correct.

Going on to this orderly marketing and dumping, if we turn to the Winnipeg market we find the same principle holds, namely, big receipts of wheat have no visible effect on price. On days of largest receipts the prices rise as often as they fall. It is easy to apply an objective test here. If we consider 2,000 cars and over a day as big receipts, then there have been 196 of such days in the last fifteen years. But an examination of these days shows that prices responded to other forces—not to daily receipts. Or if we limit our study to those days of actual so-called "dumping", that is, to days of over 3,000 car receipts, then we find that there have been but ten of these days in the fifteen crop years, September 1915 to August 1929, and as we might expect, on five of these days prices rose, on five days, prices fell. I file herewith a statement showing in detail the ten days of big receipts in Winnipeg, with receipts and prices for these days and for the three preceding and three following days, in order that the picture may be more accurate. This is purely academic.

Q.—You mean there is no propaganda there? A.—These figures were compiled before I had this job. I would like to emphasize that 3,000 cars of wheat in a day is a vast amount of wheat. There is no other market in the world that would have even half that amount of wheat arriving. I am not going to analyze these here, but on certain of these days where there would be a Sunday and holiday an enormous amount of wheat would pile up which is a tremendous amount to absorb. As I put these facts before you, you will, of course, realize, as far as the world's markets are concerned, they look on receipts as making up the supply of wheat. These, of course, are wired to Chicago and to Europe. They are put on the blackboard over there and it looks to them like a large supply of wheat for the market. In the old commercial days of marketing wheat all receipts were promptly sold. Their receipts were the market supply, in the narrow sense of the word, in that way, on the market. In recent days market receipts did not mean sales from day to day, but receipts go on the world's markets and affect world's prices. I have figures showing that dumping had no visible effect on price.

Receipts and Prices of Wheat in Winnipeg for Fifteen Crop Years, 1915 to 1929

Receipts daily in carlots. Cash prices No. 1 Northern, basis Fort William. Showing the ten days of heaviest receipts—that is, receipts of over 3,000 cars per day, and effects if any, of this so-called "dumping" on price.

"Dumping" had no visible effect on price. The three days of receipts and prices preceding and following the day of "dumping" are also shown.

1. 1927, Nov. 7th	Cars	1 Northern—Cents
Nov. 4	2,302	139½
Nov. 5	2.203	140⅞
Nov. 6	1,736	Sunday
Nov. 7	3,109	Holiday
Nov. 8	2,140	140½
Nov. 9	2,191	140⅝
Nov. 10	2,127	140⅞

2. 1928, Sept. 24th		
Sept. 21	2,113	122¼
Sept. 22	2,559	122½
Sept. 23	2,110	Sunday
Sept. 24	3,070	121⅞
Sept. 25	2,142	119⅝
Sept. 26	2,150	120½
Sept. 27	2,238	121¼
3. 1928, Oct. 1st		
Sept. 28	2,672	121⅜
Sept. 29	2,707	120⅝
Sept. 30	2,097	Sunday
Oct. 1	3,416	120⅞
Oct. 2	2,516	124
Oct. 3	2,783	123⅛
Oct. 4	2,521	125½
4. 1928, Oct. 8		
Oct. 5	2,513	127
Oct. 6	2,566	120½
Oct. 7	1,741	Sunday
Oct. 8	3,167	129⅛
Oct. 9	2,754	126¾
Oct. 10	2,719	124
Oct. 11	1,767	124⅝
5. 1928, Oct. 22nd		
Oct. 19	2,395	123½
Oct. 20	2,494	121⅞
Oct. 21	1,958	Sunday
Oct. 22	3,060	121⅝
Oct. 23	2,434	122¼
Oct. 24	2,183	121½
Oct. 25	2,405	122
6. 1928, Oct. 29th		
7. 1928, Oct. 30th		
Oct. 26	2,338	121⅞
Oct. 27	2,808	125⅛
Oct. 28	1,059	Sunday
Oct. 29	3 106	122½
Oct. 30	3,091	120⅝
Oct. 31	2,639	121
Nov. 1	2,447	121¾
Nov. 2	2,251	121⅞
8. 1928, Nov. 5		
Nov. 2	2,251	121⅞
Nov. 3	2,322	120½
Nov. 4	1,956	Sunday
Nov. 5	3,103	120⅞
Nov. 6	2,583	121
Nov. 7	2.858	119⅝
Nov. 8	2,623	121⅜
9. 1928, Nov. 13		
Nov. 10	2,542	128
Nov. 11	2,036	Sunday
Nov. 12	2,665	Holiday
Nov. 13	3,514	122½
Nov. 14	2,405	123¼
Nov. 15	2,250	124
Nov. 16	2,106	123⅞
10. Nov. 26, 1928		
Nov. 23	2,183	119¼
Nov. 24	2,255	118¾
Nov. 25	1.994	Sunday
Nov. 26	3.058	119⅛
Nov. 27	2,588	119⅛
Nov. 28	2,647	118¼
Nov. 29	2,458	117¼

Summary—Prices fell on five days. Prices rose on five days. That is, big receipts (dumping) had no visible effect on price.

The futures market is the shock absorber for big receipts. Without these hedging facilities, big receipts would always depress prices.

I must add, before dismissing the subject of dumping, that before there was a futures market dumping did seriously depress prices. And without ample hedging facilities, freely functioning, dumping would again depress prices. All our recent studies now show that the farmer is better off, on the average, year after year, if he sells his wheat direct from the thresher, than if he holds it for higher prices in the spring. The world market is geared to this commercial system of marketing.

The evidence I have just been presenting tends to prove that futures trading is a stabilizer of prices in the sense that it makes sudden and violent fluctuations rare and infrequent and the fluctuations which do occur, many and small, and so tend to reflect quickly or accurately changes in world supply or demand conditions. The futures market must discount present and prospective supply or demand conditions.

Anything that tends to stabilize price within the actual bounds of supply or demand forces is a great blessing to the farmer. Because the greater the stability or the certainty the lesser the margins for handling his wheat. In other words, the greater the stability, the less of the consumer's dollar is retained by the middleman to cover his risks and the greater the share going to the farmer.

I must turn now to the next and final subject before me, namely certain conclusions regarding further and more stringent governmental regulation of the futures market.

The question before me is really this one: Should further regulation of the futures market be imposed from without, that is, by the Government; or should the Exchange themselves amend their rules from time to time to take care of such abuses of futures trading as sometimes occur.

My personal conviction is, after some 25 years of study of the futures market, that the Exchanges, themselves, following the dictates of enlightened self-interest, ought to work out such new regulations as experience justifies. I may say in passing, that I know of no other business institution which has done a better job in cleaning its own house than our organized Exchanges in dealing with the abuses of futures trading.

I wish to refer in closing to the press releases on the various reports of Dr. J. W. T. Duvel, Chief of the United States Grain Futures Administration. As a warm and intimate friend of Dr. Duvel for the past twenty years, I do not want to criticize him or misrepresent him. For many years Dr. Duvel has been very hostile to what he calls overtrading, that is, too much trading by a few powerful individuals. With the co-operation of Dr. Duvel the Business Conduct Committee of the Chicago Board of Trade has practically eliminated the element of market control or market manipulation by these large traders. I have already quoted one report by Dr. Duvel, that on the 1923 wheat price decline, in which he showed clearly that the big traders had no influence on the trend of the market.

There are three important reports of Dr. Duvel on which the press releases have given the wrong impression. Those three, of course, are:—

1. Fluctuations in Wheat Futures for the 1925 crop.
2. Speculative transactions in 1926 May Wheat Futures.
3. Major transactions in the 1926 December Wheat Futures.

Those three constitute one study, as a matter of fact. The point is that you have probably all read the press releases. They are not written by Dr. Duvel, they are written by the press agent of the Department. That is not what Dr. Duvel said, not what Dr. Duvel thinks, as the reports themselves would show.

The first of these reports, that dealing with wheat prices during the early part of 1925, shows clearly that the general public came into the market in such volume as to take all semblance of control away from the so-called big traders. Indeed, this report proves very conclusively that a small group of big traders do not control or manipulate prices. Dr. Duvel's conclusion concerning further regulation, as stated in this report, was to the effect that the newly formed Business Conduct Committee be given time to work out the solution.

Said Dr. Duvel: "They have been in operation only a few months. Excellent results have been accomplished. It seems most important that this plan be given a fair trial before resorting to further regulatory legislation." (Page 7).

When the two later reports are critically analysed they show that the big traders are operating on both sides of the market about equally and hence the bear influence of one offsets the bull influence of the other. Indeed, data furnished by Dr. Duvel in the last report enables us to follow through the transactions of the five big traders, called A., B., C., D. and E., and to calculate with approximate accuracy their gains and losses. I have made such a careful calculation, and have reached these results. I say it gives us an approximately accurate result. I probably should explain that when these big traders have the same open commitment for a number of days; for example, if A. is long three million bushels for one week, then we assume that trader A. has done no scalping in the intervening time, that he bought three million and holds three million, no intermediate transactions; we deal only with the printed data as given in the report, but using the printed data, which is a very simple matter, we will find that:

Trader A.—Loses $284.000.
Trader B.—Gains 1 7-10th cents per bushel.
Trader C.—Gains 1 9-10th cents per bushel.
Trader D.—Gains about one-fifth of a cent per bushel.
Trader E.—Gains 2 9-10th cents per bushel.

It seems fair to conclude that if these big traders really had control over the market price, they would, during these six or seven months, have made ten or twenty or even thirty cents a bushel. Yet one lost money. Only one made as much as two cents per bushel, which was not a very big return on the capital he tied up in keeping his trades margined to the market every day. When you remember the size of their open commitments, open contracts, and remember the rule of the Clearing House that they must keep all open trades margined to the market that day, in cash, you realize it took a lot of actual cash to carry these big open accounts, and so if a man only made two cents a bushel he didn't make any very big killing, and didn't have a great amount of market control.

In short, the Duvel reports prove, on analysis, that the big trader disturbs but does not control market prices. The big trader, I agree with Dr. Duvel, should be brought more and more under the scrutiny or admonition of the Business Conduct Committee. I am sorry I haven't time to go into the working of the Business Conduct Committee, and how it handles cases of this kind; but I hope when the Commission sits in Chicago that they will have the Chairman of the Business Conduct Committee testify as to the method of handling this problem. I would suggest that you also get the Ex-Chairman and stress this point.

Experience shows that the big traders who disregard the rules do not in the end prosper thereby. I will give one illustration of this, and then I am done.

About ten years ago the Chicago Board of Trade elected a Scotch Presbyterian President. He was strict. He called before him the manager of the largest grain firm in Chicago—a firm which was considered rather lax in keeping the rules. Said the new President, "I want you to obey the rules while I am president."

"Don't we obey the rules?" was the rejoinder.

To which my Scotch friend replied, "Well, you sometimes bend them."

But this powerful firm, which bent the rules, eliminated itself thereby from the grain trade. Now they are gone. The President of this great grain firm died a bankrupt a few years ago.

THE CHAIRMAN—That is not the same as the Scotch Presbyterian President?

WITNESS—No, he is still going strong.

On the Grain Exchange, as elsewhere, honesty is the best policy. It is in the interest of the exchange to make and enforce rules in the interests of all the trade, including the producer.

THE CHAIRMAN—Your Scotch Presbyterian President reminds me of the Scotch minister who said that he always looked up for guidance and down for safety.

Are you going to examine the witness, Mr. Pitblado?

MR. PITBLADO—No, Mr. Chairman. There are one or two other points that are not covered that I might ask his views on.

By the Chairman:

Q.—Well, it is in our minds, about these comments of yours on Dr. Duvel's results; I take it that you have given the various traders that will be found in the last of the three, of May 1927—the major transactions in December 1926, futures. A.—Yes.

Q.—We can take them from the Bulletin 1479? A.—That is in the last of the three.

Q.—One was published September, 1928? A.—Yes, that is the one on which I made the calculation.

Q.—Was Dr. Duvel aware himself, do you think, of any shift in the trend of view from the 1926 to the 1927 report? A.—Well on this one point of overtrading I think he has had no shift of view on that point for the last twenty years.

Q.—The question of the influence of the bigger trader, the taking away of all control from the big traders; that was the result of the first report, and you say the report proves very conclusively that a small group of big traders do not control or manipulate prices? A.—Yes.

Q.—The 1926 document, I say that that would also not show any control or manipulation, but a much superior anticipation. A.—It shows that they disturb the market; that is the point, that they are a disturbing element and disturb the market temporarily instead of controlling.

Q.—What do you mean by disturbing? Do you think that the results show that they made the price go higher and lower than it would otherwise have done, that they and they alone discovered that it was going to do so before the rest? A.—I think it shows that their influence on price was very small and very temporary. Now he has some coefficients which show that the price would move in a certain way when certain trades were made on certain days. Now that would show, I would say, a small and temporary influence on price; but these influences, if they are contrary to the world conditions, would soon be overidden by the other factors, otherwise those five traders

could get all the money in the world by always being right; but those big traders do not accumulate such great fortunes; in fact occasionally one of them goes broke and quits the market.

Q.—Do you think if you worked out the eight traders from the 1926 report you would have got a similar report? A.—I think the data is not quite complete enough for that. As I recall—just speaking from memory—we have so much more complete data given in this last one that we can work this out with some degree of confidence; whereas before we couldn't.

Q.—That is why I am asking whether there was any conscious shift in Dr. Duvel's mind between the two, as it is pretty clear from the 1926 one that he regards the eight large speculators as having their influence—I won't say controlling the trend of prices; but having their estimate of it rather more on the spot than the small people. A.—I didn't notice any shift of opinion or of emphasis on his part. I know that he has had that opinion for a long time.

Q.—Isn't it a fact that his second report would show that the eight speculators get away on the upward market more quickly than the rest, and get away on the downward? A.—Yes.

Q.—And therefore they become sellers just before all the rest of them become sellers, while they were still buyers, that they cleared—— A.—Some of them did, but of course some of them did not.

Q.—Isn't it in fact the result of his investigation that the eight large speculators did, taking them all together? A.—I would hardly state it in that way; I would state it that they were more nearly correct than anybody else, and naturally they were men of more shrewdness and more market training, but I think to construe this you will have to take first of his series, which is No. 135, in which he says that when the prices started to go up that the public came in and took the market away from those speculators, and the speculators were entirely overridden by the public, and the big speculators lost money.

Q.—The point I am on is this, that Dr. Duvel seems to make it clear that there was a mass of fairly routine orders on the upward market, that naturally follows a bull market, and they form something that has a degree of inertia, that cannot be quickly turned, compared with the quick action of the eight large speculators. A.—Yes.

Q.—And therefore when the market is getting near—I don't say that they can make it go higher, but when it is getting near the very highest point, they are out more easily than the smaller speculators who are carrying a large number of small orders? A.—Yes. I think that would always be the case, and that is the reason that they are big speculators; they have this power to do this.

Q.—I don't know whether it is the custom in this country as in other countries for people to send in orders to buy or sell at such and such a figure or better? A.—That is one very common type.

Q.—Doesn't that introduce into the commission agent or the broker an amount of inertia of mass action which is not a characteristic of a single brain ordering for itself? A.—Sell at the market or higher, and buy at the market or lower, of course that gives the broker a little more leeway, as I see it.

Q.—He executes his order almost automatically, whereas the individual watching the market might have gone a little nearer his own figure? A.—Of course you are assuming the individual is really a scalper, that is, he is really watching small turns on the market.

Q.—Supposing you were a very skilled speculator and knew exactly where to turn, you would rather trust your own judgment than give another skilled speculator an order to buy or sell at a price or better, because you know that you would be able to exercise your judgment round about that point? A.—I think the reason the orders are given in that way, in that case you are sure to get into the market, and the broker who executes the order may be able to place a sale at $1.35½, but if he tries to make another sale at $1.35½ he may not be able to do it.

Q.—My experience of giving orders to brokers at a price or better is that he nearly always does it at the price. That is the point I am on. A.—That is in wheat?

Q.—No, no, not wheat; I have never done it in wheat. As soon as the market touches your limit he is in; you would not do that on your own. Isn't the superiority of Dr. Duvel's eight large speculators—he himself rather urges the point—that they are quicker in action because they are not carrying a mass of other people's orders? A.—I think there is no doubt about that.

Q.—Shall we have an opportunity of examining your calculations—not that we question the arithmetical accuracy of them—but sometimes a change of view as to method makes a difference? A.—I can leave this with the Commission. I will leave the book itself.

Q.—Going back now to the evidence at the beginning. On page 4, where you have your first table—I have not had time to study it, perhaps if I had I might see the answer to my question without putting it—but you have two columns: in the first half of the page, taking the first line, "Regular May $0.64⅝"—— A.—That is the low and the high of the May during the month of December 1898.

Q.—And the same with the second column? A.—Yes, that is the low and the high.

Q.—How do you take your comparison of correctness—the two middle points? A.—We use four decimal points.

Q.—You compare the two things—the anticipation and the after—— A.—Yes.

Q.—You have got four things to compare; I take it you take the mid point of each? A.—Yes.

Q.—You say it comes on the average to nine-tenths of one cent? A.—It did in this case.

Q.—What is that percentage as of the average price? A.—About .99. The average for December was 83.4, and the May, 84.39.

Q.—What was your biggest error—that is the average error? A.—You mean on this particular total?

Q.—I put it to you, Dr. Boyle, that the average error over a period is no test at all of approximation, because you might be wrong half the times a very large figure, and you might be wrong half the times a very large figure in the opposite direction. A.—Yes.

Q.—Is this the average of all the figures treating them all as pluses? A.—That is what it amounts to.

Q.—How long ago was your Kansas experience? A.—On the farm, you mean? That was in the 90's, I think 1893 or 1894, or about that time.

Q.—That is to say, the most critical period except this last year, in the history of prices? A.—Yes. It may have been a little bit earlier than that. The critical year was 1893, and 1894 and 1895; I left this farm in 1894; it probably was about 1890, because the wheat prices naturally went down to around forty or fifty.

Q.—There was a very big movement in wheat prices then? A.—A year or two later.

Q.—There was a very salutary lesson to you not to hold wheat, but it is a typical one. A.—I want to bring out partly that there is speculative cash wheat as well as in futures—I want to bring out also that there are carrying charges which they very often ignore.

Q.—They forget it; they look at the prices and forget the cost of carrying; that is very natural. A.—Yes.

Q.—But you worked it out here and had a very bitter experience? A.—Yes. Those are the two main reasons for that, cash grain and carrying charge, both of which are commonly forgotten by the farmer.

Q.—But you would not hold this out as a typical result? A.—Of course, he might just as well make three or four cents, but on the average he is better to sell it direct from the thresher.

Q.—You would not say that the man who followed this practice would have this bitter experience? A.—I claim he would lose by it, but it might not be as bitter as that.

Q.—You put this forward merely as a human touch to show why you yourself became very sensible of that? A.—Yes.

Q.—Or were you really putting it forward as a typical example of what will happen to a man if he does it? A.—I might supplement your question by referring you to the Federal Trade Commission Report. It gives the average price of wheat for a period of thirty-seven years, I think, month by month, and that would show how much the farmer would expect to gain by holding his wheat. Now, the actual advance in Chicago from harvest time in July until next May runs, as I recall, about nine cents a bushel. If he held it for ten months, he would get nine cents a bushel increase, which would not take care of his carrying charge. That averages for a long period of years, so I say that on the average, year by year, he is better off to get rid of his stuff and omit these costs.

Q.—Those were figures actually worked out? A.—Those are the Federal Grain Commission's figures.

Q.—What document is that in? A.—The report on the grain trade published by the Federal Grain Commission, seven volumes.

Q.—Is it the third of the large volumes? A.—It is not the last volume. It is volume 3, or 4. I would be glad to get the figures and mail them to you if you want them.

Q.—We have had some evidence given to us, rather conflicting, some of it, we have some evidence that farmers are in the habit of holding their wheat to the extent possibly of fifty per cent of the grain at any time in the elevators. A.—Yes.

Q.—Now, if they are going to lose forty-six cents a bushel, like you did—— A.—Now, I think the idea is that certain of the farmers have a crop rotation system and it is more convenient to market their crop later on. As a matter of fact, we know that more than half of the wheat goes to the market in three months. That is the commercial flow to which the world is geared and that is the system which works best. That means that the farmers, owing to reasons of convenience of their own—for example, he may stack his wheat and, of course, that will not go to the market for some months; other local reasons will make the farmers hold back the wheat likewise for a three month period. They follow their own convenience, which has been proved wise by experience. In other words, the lessons of experience which they have been following have brought about their practice.

Q.—Could you give us any collective, unbiassed results of that kind? Could you give us any reference to them? Or, before I come to that, have you any impression at all as to the Canadian farmers, what percentage of them are holding wheat for a rise, and what would be the total amount? A.—You mean individual farmers?

Q.—Take the total quantity of wheat in the line elevators at any time, what percentage would probably be still in the ownership of the farmer, at his risk? A.—About all I can say on that is that the Canadian farmers have had the practice of marketing from fifty to sixty per cent of their wheat in the first three months following harvest. With the coming of the combine, truck and tractor, the percentage of market flow gets a little bit faster, but as to the percentage of holding in the later months, I have no data on that. I might say that the Department of Agriculture in the United States publishes in the Year Book every year the marketing by farmers on a percentage basis per month. We know what percentage of wheat farmers market in April, May or any month, because that is carefully worked out and we have the data.

Q.—We can settle by subtraction what is left? A.—Yes, that would work out approximately correct.

Q.—You see, the trend of your evidence—I won't say anything about this example you gave, you did not put it forward as a scientific man as an average—the trend of your evidence is that this method of farmers holding their grain for a rise does not do them any good in the end; they are speculating and they lose? A.—They are speculating in cash wheat, yes.

Q.—We have had much evidence that in the endeavor to avoid the risk it is pushed to the other end and all the risk comes on the speculator. Now, we learn a great part of the loss comes on the farmer. We really do want scientific evidence. A.—Well, we can tell the approximate correctness of the percentage of wheat that is marketed each month and we can work out a table from that. That, as a matter of fact, has been done already.

Q.—On the following pages you refer to the fact that in the Middle States you find that the country elevators were largely financed locally and were not required to hedge. Could you give us any reference to where we can find statistics for that? A.—I was calling on our own reports which we have made to the Department in the year 1917-18. I doubtless have in my files the raw materials on that and I think that some of this data has been published in the Federal Trade Commission Report. What I have put in here is simply drawn from my own files.

Q.—You say that you have found that the country elevators, due to this non-hedging policy, had larger speculative losses and larger speculative gains, and they also did business on a larger margin. That is an extremely important item if you can give us the evidence for it—very important. A.—I would have to go back to my record and see if I can give you some of the evidence on that point. Apparently I referred in that connection to one particular elevator that had its margins established by the Board of Directors, which is not very common, of course. That was in Hartford, S.D., and I think I still have that report of the Board of Directors and, if so, I will mail you a copy of that.

Q.—Then, on the next page, there is a reference, very interesting, referring to a concrete case of barley, and if you can give us the definite information of that, we would be glad of it? A.—That is Hartford, S.D. I think I still have that report in my file. I called it a notice. It was really in the nature of instructions or a ruling, by the Board of Directors. It was a very unusual thing for them to do, of course.

Q.—I put the question without any offence, of course, but have you any example of this kind that would not show an opposite result? A.—Where they have failed to hedge and made a profit by it?

Q.—Yes. A.—I could cite an instance of another elevator in Kansas that comes to my mind. When we called on this elevator, which was in the fall of 1917, they had a very large volume. 1917 was a golden year in the grain trade, constantly rising prices, and they made a very large amount of money. Now, if they had hedged, it would have limited their profits, of course. The next year they thought there would be a repetition of this and instead of it there was a decline in price, and they lost in the second year more than they had made the first year. I mention this because they had got a mortgage which they did not pay. They distributed the money to the farmers in dividends and the next year the mortgage took the house. So, one year they were prosperous and the next year they were in bankruptcy—from prince to pauper. That was an elevator at Waukanee in Kansas which had that experience and I think that would be typical of the big gains and big losses.

Q.—Do you think that is a typical case of where hedging in the futures market adds materially to the farmer's price? A.—Well, in this case the losses wiped them out. It was simply a case of speculating and losing. With hedging they would make a smaller profit, of course, but they would also make a smaller loss.

Q.—There is an irresistible tendency to put forward examples which support a well held theory. We want to ask you to show the other side. You see, you have directed us to a very graphic, personal instance, which you yourself admit cannot be put forward as typical. I was asking whether this item, this barley case which you have given us, is all the example you have ever seen? A.—No, I have not given all the examples, but I claim the case is typical, for this reason, that you would find in Kansas, Iowa, Nebraska, that the country elevators, a great many of them are not hedging, and you would find cases of large profits one year and large losses the next year. Now, you would find that down there more than you would in the Northern States, Dakota and Minnesota and Montana. I don't want to evade the issue.

Q.—I put it to you, you are a curious combination of the academic and the propagandist. You have written some of your works for particular interests. You may be

just as scientific doing that as you were doing academic work. I don't know. Probably you were. But it is a part of the technique of advocacy to select the best cases to show one's thesis and not to say too much about the others. But if you came here purely as a Professor of Economics who had never written anything for any party, you would, by the very nature of your calling, give us the whole story. That is why I asked you those questions about those pamphlets, what was their genesis. I say this entirely without offence. That is why I am asking you whether you have any other cases of this character other than this you have given us, showing a different tendency.

MR. COMMISSIONER EVANS—You are referring to the barley particularly?

THE CHAIRMAN—I refer to the genesis of the other article.

MR. COMMISSIONER EVANS—I wonder whether the Professor understood about the barley, what other case on the opposite there could be.

By Mr. Commissioner Evans:

Q.—Do you know of any case in which there was a narrower margin on barley than there was on wheat? A.—No, I have never heard of such a case. I have never heard of any case where they had barley on a narrower margin than wheat or oats.

By the Chairman:

Q.—I was not comparing wheat and barley. You gave us an illustration. You said it was narrower because they were hedging in the futures market at two cents, I think. Have you any other case where it did not do that?

By Mr. Commissioner Evans:

Q.—Where barley, although there was no hedging, was on as narrow a margin as wheat? A.—I don't know of any case and I never heard of a case where barley was handled on a narrower margin. I don't think there is such a case.

By the Chairman:

Q.—I have come to the next question, Dr. Boyle. You very rightly point out that if a man is buying futures at one point, he must be a seller at a later point; and if he, therefore, has one effect at one time, he must be having the other effect at the other time; and with a number of men in the market doing these things, they tend to cancel each other out and so reduce fluctuation; that is so, that is the effect of your evidence? A.—Yes.

Q.—And in another place you apply a similar argument, that for your number of buyers, you always have an equal number of sellers? A.—Yes.

Q.—Well now, let us forget this is a Commission and get back into the classroom. You have been a Professor in economic theory. Are you quite satisfied with that argument? Let me put this to you. The price curve and the supply curve, as we exhibit them, cross at a point. We know that in practical life the point is really a zone and you may satisfy all purchasers and all sellers within that zone. They are near the top of it, or near the bottom, according to whether it is a buyers' or sellers' market. Let me take an illustration. If the pressure is from the sellers who sell some perishable article, or whatever it may be, the purchasers may get it at a lower figure than they would otherwise have been willing to pay? A.—Yes.

Q.—If, however, it is the sellers who have got the pull—supposing the purchaser is in a very urgent state, he is going out to dinner and he hasn't got an evening shirt and he must have it; well then, you get your demand at the top of the zone; is that right? A.—Well, that would be right in economic theory.

Q.—And is it not pretty practical too? Do you remember old Richard Baxter discussing what the effects of bargaining were, when one man knew, but the other did not, that there was a ship coming in the next day with a further supply of the articles they were discussing? A.—Yes.

Q.—That is exactly the position over the range of prices when one time you are near the top and another time you are near the bottom. I submit to you that your argument about the equality of the buyers and sellers is not a conclusive argument, when you have repeated rise or fall in prices. A.—Well now, I think we have two different objectives in mind. I was trying to show that the short seller, as a short seller, is not the person who depresses prices. But, to go back to the economic theory of it again, prices, of course, do fluctuate every few seconds and, as I see the market at work, I would say that the prices do fluctuate, owing to pressure of buying or selling orders which come in mostly from the outside, as a matter of fact, by telegram or telephone. Brokers in the pit do not originate orders. They only execute them, and, naturally, when we have all this from the outside, people trying to buy, we would say, a million bushels, and the seller has orders to sell two millions, equilibrium is disturbed. How are you going to balance these two affairs, except through a change all the time? The forces, as I see it, which affect that barometer, are the buying and selling orders, the number and size of those orders. Other things come in, of course: the manner which they make the sale, or try to make the purchase, the psychological element, figure in the marketing. The table of these curves which we used to use in our classrooms have left out the psychological element. A few of the more powerful traders might enter into the pit and by aggressive means might temporarily affect the price, but, as I see it, we have the buying and selling orders coming in fairly constantly, and there is the pressure of those anxious to trade. That is an important factor, but not the only important factor. There is the size of the buying and selling order and the manner in which it is executed.

I might add one other illustration there, that one of the evils of futures trading which has been cured on the Chicago Board of Trade consisted of what they call flashes, market reporters, newspapers, and those who get out the ticker service, would always report the larger traders by name. They would say Lampton has bought 500,000, Jackson has bought a million, Arthur Cutten has bought a million, and by naming the bigger traders they create a psychology on one side or the other. Those were called flashes from the pit, news items or flashes, and Dr. Duvel was instrumental in having that matter corrected. Now, in making reports of markets they entirely omit the name of the traders, because that itself became a disturbing element. In fact, it helped to manipulate prices. So the market is subject to physical conditions, and effects, and psychological conditions.

It is hard, I will confess, for me to formulate a price philosophy. This investigation I was on with the Chicago Board of Trade for seven months, working for the United States Government, tried to formulate a price philosophy there by observation. It is difficult to work up a formula or philosophy which will work in the pit.

Q.—I am not going as far as philosophy, I am merely asking you whether you consider that it is conclusive that the buyers and sellers do not influence the price solely because they are equal in number? A.—I don't think the number is terribly important, because we may have a few men executing large orders. It is the size of the order that counts. Of course, in the wheat pit itself, as a matter of fact, the small traders group themselves in one spot, and the large traders in a different part of the ring, and one large trader will trade in one ring as much as five of the small traders, or, as we call them, pit scalpers.

By Mr. Commissioner Evans:

Q.—Wouldn't the large trader distribute his trades amongst several members? A.—He might buy in 50,000 bushel lots, where the small trader would buy in 5,000. There are plenty of men who trade in 5,000 lots all the time, and others will trade in 50,000 lots, which is ten times as much, but I don't think there is a lot of trading in 50,000 bushel lots, although there is some.

Q.—As a matter of fact, have you observed in the wheat business this zone theory of prices to which the Chairman has referred, that there is some range of price in which the purchasers are practically indifferent, they might take at the top or might take at the bottom? In the wheat pit certain prices change by one-eighth of a cent, and an order can be executed in a few seconds. Have you noticed any zone? A.—I think you might have that on some days, but that thing might not work out on two days in succession. That may work for a time, but I don't think that recurs, there is no law of recurrence about that. I don't think you can say it is a particular price law, in fact I hate to lay down any specific price laws, or price philosophy.

By the Chairman:

Q.—I was only trying to see how far you would push the very common answer which we get that the price can't be affected because there will be an equal number of sellers. I suggest it will be on the momentum of the market, and one man may not have an equal command of the situation as another, and they are going in different directions at the same rate, one is going backward and the other is forward? A.—Yes, I would agree with that.

Q.—Coming to your next page, you think that "fluctuations of ten cents in one day are about as common now as fluctuations of 50 cents a bushel in one day then"? A.—Yes.

Q.—Could you give us any evidence for that? A.—Well, ten cent fluctuations would occur now probably once in five years, I think that would be about correct, but if we go back to the wheat market in the United States in what were our milling cities of 1800, to Rochester, New York, Baltimore, Maryland and Wilmington Delaware, and collect the wheat board statistics you will find those drops in price that I referred to occur about as frequently as the ten cent drop now.

Q.—Is that an estimation or just something you see? A.—No, I have compiled the Baltimore figures in the Peabody Institute in Baltimore, and in Rochester—Rochester was called the milling city of the United States for many years—from the papers in the McClure Library in that city, and I have compiled some figures for what they call the Five Mills on the Delaware, the Wilmington mills, and the thing, of course, that is very striking about these early figures would be this, the price will run along with no change at all for a period. If wheat is 95 cents it will be 95 cents a bushel for a week or ten days or two weeks, and then there would be coming what they call an "arrival from England," that is news of a bad harvest, or something, and the price would jump. The next ship would contradict that, and the price would go down. In other words, there would be minor fluctuations, but a few very sudden and very large fluctuations. I did not bring that sort of price data along with me because I had quite a grip full of other material which I got together to work up on the train.

Q.—It is because you have given us so much we are greedy for more. This is a very important statement that the fluctuations can be shown larger in those days before futures than they are today, and anything you can give us in the way of concrete, realistic statistics on that would be very valuable. A.—Now, if I can get your address about the middle of next week I might be able to send you some.

Q.—This very table. A.—I will not be back to Ithaca in time to mail it out before Monday, and it would get here about Wednesday.

Q.—Anything that will bear out that finding of yours would be welcome. A.—Would you also want some figures on the foreign markets, on Leipsic and Berlin?

Q.—Yes, anything which by analogy has had this effect would be useful. A.—I can mail you quite a quantity of data of that kind.

Q.—Thank you. I think I will hand you over now to the less tender mercies of my colleagues.

MR. COMMISSIONER BROWN—I don't think you have left much for us. Just one or two questions I would like to ask.

By Mr. Commissioner Brown:

Q.—You state at the foot of one of these pages: "The question before me is really this one: should further regulations of the futures market be imposed from without, that is by the government; or should the exchanges themselves amend their rules from time to time to take care of such abuses on futures trading as sometimes occur?" That sounds like an admission that abuses do occur in connection with futures trading in at least some of the exchanges, is that right? A.—Yes.

Q.—Are you referring there to the Chicago Exchange, or to exchanges generally? A.—I think on all the North American Exchanges we have some occasional abuses.

Q.—Would you include Winnipeg in that? A.—Yes. I wouldn't claim they are perfect, by a long way.

Q.—We have had a lot of eminent gentlemen before us in the last couple of days, and I do not think any of them have gone that far. Have they, sir?

THE CHAIRMAN—No, I don't think so.

By Mr. Commissioner Brown:

Q.—Could you give us some idea of the abuses that you have in mind when you expressed it in that way? A.—Well, I agree that we sometimes have over-trading. I don't think it is as frequent as my friend Dr. Duvel says, but I think there is an evil there of over-trading by one individual, and that evil can be easily handled, as you undoubtedly will discover if you interviewed the Business Conduct Committee in Chicago. Yes, I would like to see the exchanges put on the screws there and be a little more strict.

Q.—That is over-trading? A.—Yes.

Q.—That is going into the market too strong, either by selling short or buying long? A.—Yes, either way.

Q.—I didn't intend to be poetical, but that is right, is it? A.—Yes, that is over-trading.

Q.—Have you any other abuses in your mind, when you express yourself this way? A.—Well, I claim that these abuses are such as crop up from time to time, and we get things cured, and new faults come up.

Q.—I want to know what other abuses you have found in these Grain Exchanges out of your investigations? A.—Of course, I have referred to one under the name of flashes, and I must confess I don't know whether they practice that here, whether the market report gives the names of the traders in connection with the amount of the trades. If they do, that should be corrected.

Q.—We did not get them here before this Commission, I can assure you. A.—Well, if you read the daily papers you will see that.

By Mr. Commissioner Evans:

Q.—They are not reported here. A.—It is not allowed?

MR. COMMISSIONER EVANS—It is not reported, anyway.

By Mr. Commissioner Brown:

Q.—That is an abuse you find on the Chicago Exchange? A.—It was, and that has been stopped for five years now.

Q.—Have you any other abuses that you have discovered that you would like to tell us about? A.—Of course, I do not claim a great familiarity with your market. I haven't spent much time here.

Q.—I mean on the Chicago Exchange? A.—Well, there is one very general condition which I think is bad, and that is I think the Exchange has too big a membership, having 1,600 men. You see, it brings in such a diverse character. At the top we have great institutions like Quaker Oats Grain Products, great banks, and great dignified institutions, and coming down to the tail end you have quite a number of probably 100 men who are the pit scalpers, and that means in that group you have a few men, kind of camp followers who have the gutter view of futures trading. I claim that futures trading and speculation are two very wholesome institutions, but we do have gamblers, and we have many of these camp followers, men with the gutter view, who do not help the Exchange any.

Q.—By using the phrase "gutter view" you mean a sort of low down class of individual? A.—No, having the view that the Exchange is a place where they can gamble. I will admit some gamblers use the Exchange, but I do not confuse gambling and speculation.

Q.—You think they are very objectionable? A.—I think they are a liability and not an asset.

Q.—Does that cover the ground of abuses that you have discovered? A.—Well, I haven't formulated an inventory or catalogue of these abuses, but I think those are the ones that come to my mind first.

Q.—Would you think clearly and see if any others would come to your mind? A.—You mean during the next few minutes, or right now?

Q.—Now, if you can. A.—Well, in Chicago there is a situation that probably would not interest you here, that exists, and that is a very serious unsolved question with them, and that has to do with the warehouse situation. That is rather a big thing to open up here, but to have futures trading you have got to have public storage. As you know we have public and private storage, but when you deliver on a contract it has to be in a country elevator, but in this country men are permitted to run hospital elevators, or to do mixing and all those things which we think are highly beneficial. But under your constitution——

Q.—We allow a certain limited amount of it, but our government has decided it is not always beneficial to the producer. A.—I think the biggest mixers, and the biggest beneficiaries are the co-operatives themselves, but in Chicago, under the Illinois constitution and law, there has grown up a warehouse situation which is alarming for this reason, that as time goes on they get less and less public storage, because it doesn't pay to run a public elevator, you do not have enough grain in store to pay profits on the investment, and that means there will be less and less public storage, because you can't have futures trading unless you have a public storage. Now, private elevators increase in number. A man buys wheat down there and of course he can mix it, clean it, or process it, dry it, and it is his wheat, but they keep the public houses and private houses so separate it is an embarrassing situation and the solution is not yet in sight. Of course, there are plenty of men working on the problem, but the solution I say is not in sight in Chicago.

Q.—I would ask for any further details of abuses, Dr. Boyle? I might find even more than I expect. But you go on in this statement and you say, "Dr. Duvel's conclusion concerning further regulations as stated in this report"—that is the report of 1925—"was to the effect that the newly formed Business Conducts Committee be given time to work out the solution." That is, as I understand it, there was formed in Chicago Exchange a Business Conduct Committee? A.—Yes.

Q.—Shortly before the publication of that article in 1925, was that right? A.—It was formed—I forget the year, but it was either 1925 or 1924.

Q.—Well, he goes on to say here, "They have been in operation only a few months." A.—Yes.

Q.—So that it was quite recent. That is there had been no Business Conduct Committee, I presume, prior to that. Is that correct? A.—That is right.

Q.—He says: "Excellent results have been accomplished," that is excellent results have been accomplished by the intervention of the Business Conduct Committee. That is correct? A.—Yes.

Q.—In the way of reducing and minimizing the abuses to which you have referred? A.—Yes.

Q.—In other words, these abuses had been practised apparently some time in the Exchange because of the lack of the Conduct Committee to take them in hand and curtail them? A.—Yes, that is right.

Q.—That is the proper inference? A.—Yes.

Q.—Then it says: "It seems most important that these men be given a fair trial before resorting to further regulatory legislation." As a matter of fact, Dr. Duvel has apparently asked for further legislation, has he not, regulatory legislation? A.—He suggested further restriction of this over-trading in very general terms, as you may know.

Q.—I mean there is an Act before Congress right now? A.—There are always two or three laws pending on that subject.

Q.—There is one now before Congress at the special request of Dr. Duvel, which is the special result of the operation of the Act which he administers? A.—You refer to the Capper-Dickinson Bill, I presume?

Q.—Yes? A.—The Capper-Dickinson Bill was introduced, or a Bill similar to it for many years. I don't know that I would want to go into a discussion of these Bills that have been introduced on this subject.

Q.—I don't want you to go into the details of it. Does it not empower the administrator of the Act, or doesn't it put teeth into the administration of the Act? A.—Well, it would add certain new powers, proper powers to the Secretary of Agriculture.

Q.—When did the Futures Administration Act come into effect? A.—The law was passed in 1922. It was upheld by the Supreme Court in 1923 and began to function in 1923.

Q.—Do you think that the institution of the Business Conduct Committee which had the effect of curtailing the abuses on the Chicago Exchange was brought about as a result of the enactment of that legislation and the administration of it under Dr. Duvel? A.—It may have been in part due to that but it was in large part due, I think, to an informal co-operation between Dr. Jardine, Secretary of the Department of Agriculture, and the ex-President of the Board of Trade, Mr. Gates. These men were able to work out certain plans for reform.

Q.—That is the reforms came through—or the suggestions came from outside of the Exchange in the first instance? A.—Only in part. As a matter of fact this was one of four or five major reforms that came at that time. The big reform was the creation of a new Clearing House on the Board of Trade. That matter had been pending in Chicago for a great many years. It had been voted on several times but had been voted down by the very small traders, who did not like the idea of a Clearing House which would require margining of all trades to the market. The old Clearing House required nothing of that kind. They did not margin trades to the market, so the new Clearing House on business conduct, the emergency rule gave them power to eliminate the fluctuation to two cents in any one day; voting by mail instead of being present and voting in person. These are four of the reforms that came about at that time and these had all been pending for some time, so there is no doubt they came as a climax of a good many years influence within and without the Board, and at the culmination this law was passed that doubtless speeded up the process of working up this programme.

Q.—It had largely come to a head, at least because of the fact that this Act gave an outside agent the power to go in and investigate the operations of the Exchange? A.—I think this agitation which was going on for some years, first there was the Trading Law in 1921 which was unconstitutional and the Grain Futures Act of 1922. This was on top of a proposed legislation of Illinois. There had been a period of storm and stress for a number of years and the reform element on the Board of Trade in these years had discussed the matter and the discussion had already come to the point of making these reforms. The law had some effect. I do not think it was a major influence in bringing about these reforms. I will simply say that this law was one of the many forces which finally induced the Board of Trade to pass these regulations.

Q.—I will put it this way: Do you think that the passing of that Act which gave the government agent power to go in and watch operations, inspect the activities without too much control in connection with these activities; do you think that that is beneficial? Has it proved a benefit in connection with the Exchange? A.—I have to answer that in this way, that it has both good and evil in it.

Q.—Which way does it balance? A.—Under a sympathetic Secretary of Agriculture, where there is hearty co-operation between the Exchange and the Department of Agriculture. But under a Secretary of Agriculture who is inclined to be a little hostile, or inclined to play politics, particularly in presidential years——

Q.—We would not get politics into it here. A.—It would subject the Board to considerable regulation which I think is harmful. My opinion is that it has done some good and it has done some harm, but to put so much power in the hands of one man, that I consider on the whole a very dangerous institution.

Q.—Supposing you did not put so much power in the hands of one man? We have a fine Board of Grain Commissioners here. They are all capable men. There are three of them, no one man running it. Supposing we put some power in the hands of these three eminent gentlemen who would be absolutely fair and that independent of all political considerations and governments, do you think it would be a good thing in reference to the Winnipeg Exchange? A.—It seems to me you are applying a remedy before you have a well defined disease to cure.

Q.—You are the first man who has come before us to tell us that there was a disease? A.—Yes.

Q.—The patient himself would not admit it. He has been before us and he would not admit any trouble. You are the first man to tell us and you, of course, come before us as an expert on matters of this kind; you are the first man to tell us that even in the Winnipeg Grain Exchange, if we could only get inside there, we would find the real disease? A.—No.

Q.—That is what you said before. I will put it to you again, is that not what you said? A.—I don't want to use the word disease, I did not use the word disease, I said abuse. Abuses develop in any institution, whether a grain exchange, a church or a school.

Q.—Well, abuses, that is the word? A.—Yes.

Q.—That is what I call a disease in an institution of that kind if there was abuse. A.—I think the biggest abuse we have in Canada and the United States today is bureaucracy on the part of the government.

Q.—Just a minute. I do not want to get into that. We are getting into a big field. Let us confine ourselves to the Board of Grain Commissioners. If there was some sort of supervision over the Winnipeg Grain Exchange, do you think it would be detrimental or beneficial? A.—Here is a case of driving a man or leading him. As I see it, the Board of Grain Commissioners work in friendly co-operation with this Exchange and no doubt make suggestions to them in a friendly spirit.

Q.—It would be all friendly, surely. I am not for a moment suggesting that anything should be done other than in a friendly business-like way. At least we would think that the best men on the Exchange would gladly accept it, the kind of men who appeared before us here. A.—It may be that we are worse on our side of the line, but I personally very seriously fear this growth of bureaucracy in the administrative powers of the government, because there are men in power who do not understand these commercial institutions and who will take a political view.

Q.—Dr. Boyle, the farmers of these Western plains market yearly hundreds of millions of bushels of grain. From the time that grain goes into the elevator in the country until

it reaches the terminals and the seaboard, it is under government supervision and government regulation. A.—You mean as to inspection and grading?

Q.—It is inspected by government inspectors. The farmer brings his grain to the elevator and the agent, if he has space, must buy it. The government says you must buy it. You must give accommodation to the farmer.

MR. COMMISSIONER EVANS—Must buy it?

MR. COMMISSIONER BROWN—Yes, must buy it.

MR. COMMISSIONER EVANS—No.

MR. COMMISSIONER BROWN—He must take it in at least. Do you mean to say that if the farmer wants to sell his grain on track at that particular elevator that he cannot sell it? They cannot turn it back and say we won't buy it.

MR. COMMISSIONER EVANS—Some one is willing to buy in this market in any position.

MR. COMMISSIONER BROWN—I may be wrong in that, but if he wants to sell——

MR. PITBLADO—They must agree as to price. There is no law in Canada that makes one man buy from another because he wants to sell. There must be an agreement as to price before the sale is completed.

MR. COMMISSIONER BROWN—The market price is the price.

MR. PITBLADO—If he is satisfied with the price that the elevator offers, which is based on the market price. Under the Canada Grain Act it can give him a cash purchase ticket.

MR. COMMISSIONER BROWN—If the farmer wants to sell his grain at the price that the elevator agent is buying grain at that particular time, the agent must take it.

MR. PITBLADO—No, there is nothing of that kind in the Act. It says, if they agree on the purchase price, the elevator must take the grain in, if he has room in the elevator.

THE CHAIRMAN—Can the elevator discriminate between two offers?

MR. PITBLADO—No.

THE CHAIRMAN—Can he discriminate as to the purchase price?

MR. PITBLADO—Yes, as to purchase price, but not as to storage.

THE CHAIRMAN—At the same price?

MR. PITBLADO—Yes, at the same price.

THE CHAIRMAN—Can he discriminate between two people? Can he say, I will buy yours and not buy yours?

MR. PITBLADO—I think so.

MR. COMMISSIONER BROWN—I think not. I think the farmer is entitled to a cash ticket.

MR. PITBLADO—The question of grade and dockage always comes into it. They have to agree on the grade and dockage and then upon the price, but do not have to agree on anything for the farmer to store his grain. The grain must be taken into storage regardless of whether they agree as to grade and dockage or not.

MR. COMMISSIONER BROWN—We will look up the Act and see what it states. However, that is only incidental to the picture I am trying to paint. From the time it gets into the elevator in the counry it is under government regulation and supervision. That is, the elevator company and the elevator agent cannot do just as he likes with reference to that grain. The government has through its inspection department and through the Board of Grain Commissioners undertaken to protect the farmer as well as the elevator in reference to that grain. It did not always exist, but this government supervision I think is admitted by all classes in Western Canada today to be sane legislation, necessary in the interest of the producers and I think helpful in connection with the men who are buying the grain as well. Why should there not be some extension of government supervision in connection with the Grain Exchange here in Winnipeg which deals in the matter of selling and buying this great crop from the western prairies? A.—When it comes to the inspection and grading, in which you do marvelously well, you have a scientific laboratory and your government can conduct a scientific laboratory as well as any private interests may, but when you switch over to private practice, governments are to spend money rather than to save money, and as soon as you get them into a commercial institution, such as the Grain Exchange, then government regulation involves the regulation of business men who have been for years in that business by other men who have not been very long in that business and know less about it, and I claim there is inherent in such regulation always an interference.

Q.—I do not want any undue interference. We have heard about the bulls and bears who visit the Grain Exchange. There is an impression in the farming community throughout this western country that there is something more than a bull and a bear in the Grain Exchange; that there is a bad man lurking there somewhere. It may be wrong but that is the impression. I do not say it is right at all, not for a moment, but that is the impression in the country and it is largely to the effect that the Grain Exchange performs its operations—shall I say elusively or exclusively, or what shall I say, or shall I say it conducts its business behind closed doors. so that even some men in the Grain Exchange do not know what is going on there, according to the evidence?

MR. COMMISSIONER EVANS—Would you define more clearly what you mean by

the Grain Exchange? Are you referring to what the Grain Exchange was or how it functions or the operations on the Grain Exchange? What institution have you in mind?

MR. COMMISSIONER BROWN—I am referring to the facts that have been brought before us in connection with the operations on the Grain Exchange.

WITNESS—Don't you find an answer Chief Justice, in your Canadian history?

MR. COMMISSIONER BROWN—You haven't let me finish my little story. Don't you think in the interests of the men who are operating the Grain Exchange if they had the confidence of the farmer that they have not got now; if we could bring confidence on the part of the farmer to the Grain Exchange? A.—If that would follow I would say so, but I do not see that that would necessarily follow.

Q.—If the government which has done so well in the supervising of the marketing of the farmers grain to the seaboard would come in in a similar way and supervise the Grain Exchange so that the farmer would know there was somebody there in the Grain Exchange who was at least watching things; don't you think it would have a desirable effect in restoring confidence?

MR. COMMISSIONER EVANS—I would like to know whether you are referring to the Grain Exchange or futures trading, which is the subject before us?

MR. COMMISSIONER BROWN—Well, futures trading if you like.

MR. COMMISSIONER EVANS—Wouldn't it be well if we did like it, since this is the subject before us and since we have substantial evidence that the Grain Exchange does not control futures trading, and how futures trading is carried on? If it is proposed in this Commission to open up the question of the Grain Exchange, we will have to have a wider enquiry than we have started on. Is this to be confined to futures trading?

MR. COMMISSIONER BROWN—I do not think there is any conflict between the Commissioners.

THE CHAIRMAN—What we have to enquire into is—what effect, if any, the dealing in grain futures has upon the price received by the producer. We do not mean theoretical trading but something that is actually happening. If in the actual happening there is some ingredient that is mixed up with it in that way and the removal of that secret ingredient was to make it operate another way it is our duty to ascertain it. We must pursue this line of argument with this witness and see whether in his judgment there is anything in the way of supervision that would remove any ingredients that affect futures trading, whether in the abstract; whether what we saw in the Grain Exchange was put before us in evidence I could not tell, there was too much noise in the Grain Exchange for me to know exactly what was happening. I am assuming that it did represent the same thing, and that that makes up the whole of the Grain Exchange operations, this futures trading was going on. Would you agree that until we agree otherwise this enquiry will be confined to futures trading?

MR. COMMISSIONER BROWN—I agree.

THE CHAIRMAN—If it is germane to the question of whether what is going on in the futures trading in the Grain Exchange is susceptible to any kind of external control; I don't want to bring in the rest of the Grain Exchange. I would ask Chief Justice Brown to define his questions about the Grain Exchange to the futures trading in the Grain Exchange.

MR. COMMISSIONER BROWN—Good.

THE CHAIRMAN—I don't think he ever went beyond it. There may be the most appalling abuses in the Grain Exchange in cash trade and other respects; that is none of our business.

MR. COMMISSIONER BROWN—I thought my questions were germane to the subject of the enquiry.

WITNESS—If I understand it, unless your farmers have more respect for your Government than our farmers have for our Government they would not be reassured; they wouldn't have this confidence.

THE CHAIRMAN—Dr. Boyle, no farmers ever have any respect for any Government in any country.

By Mr. Commissioner Brown:

Q.—Do you then definitely hold the opinion that intervention in futures trading in the Chicago Exchange is detrimental? A.—I claim it does some good, and some harm—as most of the things do; they are mixed blessings; but I think on the whole it is more of a liability than it is an asset. I think that would be true, it would be some good but more harm than good.

MR. COMMISSIONER BROWN—I am through.

By Mr. Commissioner Evans:

Q.—You were referring, Dr. Boyle, to certain conditions in Chicago. You were referring, for example to the public elevater capacity there. Have you in your mind about the magnitude of that capacity now available? A.—I believe the public storage in Chicago runs about seventeen million bushels; the private storage I think is about thirty-eight million bushels; but only grain in public elevators is considered deliverable on contract; that is the trouble.

Q.—Have you any idea of the magnitude of the storage in which grain is available for delivery on the Winnipeg Grain Exchange? A.—I think it is around 93 million bushels —something like that.

Q.—I think so. That would make a very fundamental difference in the situations of the two markets? A.—Yes, it would.

Q.—Have you in your mind anything about the volume of actual grain attributable to Chicago? A.—They will only get around forty million bushels of wheat in a year.

Q.—And there would pass through by the system here, anything up to 400 million? A.—Yes, ten times as much as Chicago.

Q.—Would it be reasonable then to suppose that certain of the conditions which create difficulties down there might not be found here at all? There have been difficulties which I think have been called abuses at the time, which have arisen in connection with your limited storage and various things of this kind, but in any case this market would, we say have a very much broader phase than that of Chicago in respect of the actual cash wheat delivery? A.—Yes, there is no question about that, compared to Chicago or Minneapolis or any other city.

Q.—Then you referred to one reform, that would be the requiring of the margining to the closing price of the day in Chicago? A.—A new Clearing House; they have that now.

Q.—Are you aware whether or not that has been the case in Winnipeg practically since the foundation? A.—Yes, you have the modern Clearing House.

Q.—Well, then that particular reform would not assist in this particular case? A.—No, you would be saved from that.

Q.—I am not sufficiently posted—I have only heard from time to time, opinion with respect to the conduct of the Clearing Association there; that one thing I think I have heard, that at a certain stage it was not considered so confidential that there might not be knowledge gained by other groups of what groups were doing; I scarcely wish to voice that; but it might be possible, might it not, that there would be things to be corrected there which do not exist here at all? A.—Well, knowing as far as I know, your Clearing House and the Minneapolis Clearing House and the Chicago Clearing House keep information extremely confidential; I haven't heard of any leaks.

Q.—That is the way it should be. Now you refer to what you call over-trading; I think that was one of the conditions to which you applied that word "abuse". Is it your opinion that a great volume of trading on an Exchange, or on a Clearing House, is a bad thing, or a good thing? Is large volume likely to prove an evil in any way in itself? A.—No, I wouldn't say that. I think a large volume makes a wide market, and a wide market is the best market for hedging purposes. I am assuming you have a great many traders in the market.

Q.—Have you ever examined to see whether or not at times of large volume in Chicago—the figures there are recorded—the prices have been buoyant, higher than when there has been smaller volume? A.—I think it is a general rule that the days of the large volume are days when prices do tend to work upwards.

Q.—There may be some correspondence between large volume and higher prices? A.—Yes.

Q.—Have you examined to know whether there has been any case where large volume has accompanied declining prices? A.—Well, I don't think that has occurred often enough to draw any conclusion; it may happen; but I know that the general rule is, big volume and better prices, that is the general rule.

Q.—Apparently you do not regard volume as in itself a detriment? A.—It is a good thing, big volume makes a wide market, and a liquid market.

Q.—Where does the point come up that large volume traded in in a few names would become an abuse? A.—Of course you can see that if you had a few large traders they might accumulate quite a big line of wheat, and they might hold out for delivery, and it might make a squeeze when the delivery month came round.

Q.—Well they might possibly work a corner? A.—I can see in your market, with your tremendous amount in store it would be very unlikely to occur, whereas in Chicago it is quite possible.

Q.—Isn't that the fundamental difference between the two markets? A.—Yes, that is the most fundamental difference I suppose between the two markets.

Q.—Of course I understand that the effect of the rules in Chicago makes corners such as were attempted by Patton and Leiter impossible now; but wasn't there a case on one of those occasions when they brought wheat back from even the seaboard, and smashed the ice on the lake in order to bring it from all quarters to try to make delivery, because the wheat available in Chicago and the storage there was utterly inadequate for the size of the trade? A.—That was what they called the Leiter corner in 1898, wheat was taken from Buffalo by Armour Grain Company to Chicago, by boat of course.

Q.—If we have this vast volume, which I think you will admit is the vastest volume of wheat flowing past any part of the world, in any part of the world, is the volume flowing through Winnipeg, and we have this enormous storage from which delivery is accepted on contract, would that mean that the possible danger of men working a corner would be very much reduced? A.—Yes, I think it is extremely reduced.

Q.—And unless there were a tendency here, or unless the rules facilitated that sort of thing, that might not be an abuse to which serious attention should be given just at the time? A.—Yes. Putting it that way, it was more of a remote possibility than a likelihood.

Q.—Then you refer to another class of trade through the little fellows that are in and out and not in the dignified class of those who have big merchandising interests to protect. Is their volume very large in the aggregate? A.—Well, it is quite a little volume. You take a hundred of these men and it makes a substantial amount, day by day.

Q.—You, I think, called them scalpers? A.—That is what they call them.

Q.—I wonder whether you would define the scalper as we do here; the man who is in and out during the day and closes his account before the close of the market? A.—Yes, that is the same thing.

Q.—Have you ever studied to see what function that class performs in the market? A.—Well, I have it reasoned out in this way: he helps to make a wide market and sometimes there is nobody else there to make a trade. He will trade. He makes the liquid market and any day you are sure of making a trade.

Q.—You would consider that a very important function? A.—Well, that is a service.

Q.—That is, supposing the case of one of those dignified merchants to whom you refer might want to put a hedge over for 100,000 to 250,000 bushels but the man who is taking that and will have to put over another hedge might not really get his order into the market until an hour later than this other order had come in, or something of that sort, wouldn't you have a very irregular market if you were depending on matching the orders of those who were hedging? A.—Yes, I think these pit scalpers, of course, they are speculators, but they make a wide liquid market and they help to perform the hedging function, therefore——

Q.—Therefore, the mere presence of those in the market would not necessarily be an evil in itself? A.—No, I don't want to imply that. I would not imply that.

Q.—The suggestion has been made that there should be some supervision and control in connection with the Board of Grain Commissioners. You heard what was given with respect to the existing duties and responsibilities of that Commission. Would you judge from what was said that probably that Commission has about enough for one Commission to perform? A.—They are safeguarding the wheat.

Q.—From the time it is in the farmer's wagon until it gets beyond the seaport. It might be almost enough for three supermen, might it not? A.—I think so.

Q.—Even apart from the question of whether bureaucratic supervision is necessary or not. And would three men be better than one man necessarily, anyway? A.—They might be less decisive.

Q.—And you have suggested that one of the possible dangers of bureaucratic supervision is the taking of a political view, but is there not a danger of any bureaucracy taking an unsound economic view? A.—Yes. I would like to add there, when you have control by the Secretary of Agriculture, as we have, it must be remembered that it is done by his clerks. He does not supervise. He passes it on to his underlings and they pass it on to their under clerks.

By the Chairman:

Q.—That is on the general principal that the only one who really does anything is the office boy? A.—That is it.

By Mr. Commissioner Evans:

Q.—The point I have just raised is that it is quite as easy to make economic mistakes in administration as it is to make political mistakes? A.—Yes, or even easier.

Q.—Therefore, we would have two things to keep in mind when considering this theory that has been put forward to us here. One would be the possibility of political mistakes being made and the other the possibility of economic mistakes? A.—Yes.

Q.—And do you think that any three men would likely arrive at sounder economic judgment than would be reached by the free and open competition of a large number of business men? A.—No, I think the business men know more about the business than anybody else, and I have the view that most business men are honest and I am inclined to trust them.

Q.—You, however, have never examined the Winnipeg clearing system here, nor the operations of the futures market? A.—Only very casually. I have just been here occasionally and I have never made any study of it.

Q.—And you have no particular conditions in this market to point out? A.—No.

By Mr. Pitblado:

Q.—Mr. Boyle, have you or have you not followed the trend of prices on the Winnipeg futures market? A.—You mean during the last year or two?

Q.—Yes. A.—Yes, I have watched those prices for some time.

Q.—You have followed our prices here on the futures market? A.—Yes.

Q.—Watched them? A.—Yes.

Q.—I am going to ask you whether there was or was not from the trend of prices any evidence of what you might call manipulation in a large way by any group or groups? A.—No, I have not seen any evidence of that kind myself.

Q.—You told Mr. Evans that you had not looked inside of the futures market here at all? A.—Just casually, as I had visited here from time to time.

MR. PITBLADO—What I am asking here, Mr. Chairman, is this. We are glad to assist the Commission. If you, Mr. Chairman, have noticed, I asked our leading grain merchants who came before you if they had noticed or knew of anything indicating manipulation of prices on the futures market by any group or groups of people, either upward or downwards. I am suggesting to your Commission that you can call any members of our Exchange that you wish to. The Exchange is open to you for that. And I have asked this witness who has followed the trend of prices, if he saw any evidence of manipulation or control by any groups or group.

By Mr. Pitblado:

Q.—Now, coming to Chicago, Dr. Boyle, before the change of working conditions came about, was there or was there not some evidence indicating some manipulation by a group or groups of dealers? A.—There had been squeezes on that market, yes.

Q.—When you say "squeezes", just tell us what you mean? A.—A squeeze is a small corner. He does not get control of all the grain in the elevators, but he gets control of so much grain when others have only so much time to buy and fill the contracts that it forces the price up.

Q.—Was that not, in your opinion, a matter that brought about something in the nature of a regulatory provision? A.—Yes, I think their past experience with these squeezes, in connection with this small amount of storage there, did contribute very much to this reform.

MR. PITBLADO—The reason, Mr. Chairman, I was asking that, and I leave it at that—if time permitted, and you know you only have four days here, I would like to call before you every member of the Exchange, as I have representative ones and put that question that I put to the representative ones, is there anything in their view, that is have they seen or noticed or know of any such manipulation as Dr. Boyle suggests was in the Chicago market.

THE CHAIRMAN—I do not think the truth would ever become more true because it is re-affirmed.

MR. PITBLADO—That is the point I mean. Chief Justice Brown made some suggestion that there were some bad men down there.

MR. COMMISSIONER BROWN—I did not say that.

THE CHAIRMAN—May I interject to say that what I understood the Chief Justice to remark was that if such a thing did exist might it not be well to remedy that situation by some regulatory provision being introduced.

MR. PITBLADO—Well, that is a matter for the Commission to deal with.

MR. COMMISSIONER BROWN—I would not make a charge like that knowing these gentlemen that I have met so far.

MR. PITBLADO—The point that I am suggesting to the Commission is that if such a thought is in the minds of the Commission tell us so, so that we can come before you. The Chief Justice said something about these gentlemen that were here as if they were making a fine case before the Commission not having all the facts.

THE CHAIRMAN—I appreciate your impartiality very much. We do not question it.

MR. PITBLADO—And our statement is not an exaggerated statement of the facts. We have no control over the Clearing House, that is, the Grain Exchange has none, but if the Commission thinks there are in this Winnipeg market such abuses as there were in the Chicago market you could go, if the manager of the Clearing House would let you and look over their long lines, and see who holds them. I suggested once before, and I am going to suggest it again, that our farmers' organization of the Pool ought to be called before you to see what long lines they have had in the Clearing House, not that it should be given out in public, because I don't think that is fair——

THE CHAIRMAN—Are you making a request on behalf of the Winnipeg Grain Exchange that we should call the Pool?

MR. PITBLADO—Hardly that, but I am suggesting you should consider whether your investigation may not be complete without your doing something in that respect. I suggested it once before to you.

THE CHAIRMAN—Yes, it is a rather open suggestion. If you could indicate to the Commission the particular point germane to our inquiry that would be elucidated, we will consider it.

MR. PITBLADO—I may by the time you come back. I don't know whether I shall at all, but at present I have been too busy bringing before you our own people to go into that. It is an economic question you are at, and I, for one, want to keep it an economic one.

THE CHAIRMAN—The moment any witnesses brought before us give evidence germane to the point that can only be answered by other witnesses, we will call them.

By Mr. Pitblado:

Q.—I want to ask this question; it was touched on to some extent, but not quite fully. Mr Boyle what relation, if any to the open commitments, and I mean by the open commitments the open trades in the Clearing House, what relation to the open trades in the Clearing House has the available cash grain that may be delivered?

MR. PITBLADO—The chairman will see the point I am raising?

THE CHAIRMAN—Certainly.

A.—Of course, it is an extremely important relationship because if your open commitments are large, and the available supply of grain is small, then you have the makings of a corner or squeeze. If your open commitments are large and your grain in sight is large, then your condition is perfectly healthy.

Q.—So that they have a relation to indicate? A.—A very vital relationship.

Q.—Would or would not that relationship be of some use in your opinion in order to see whether or not the abuse of what you might call over-trading existed or not? A.—Yes. Of course, over-trading presupposes a man gets control of a long line, or the open commitments are getting too large. Naturally, they are only large or small in relation to the supplies that may come.

MR. PITBLADO—I am not going to develop that any further, but I got the witness's view on that.

THE CHAIRMAN—Yes, I appreciate that point.

By Mr. Pitblado:

Q.—The next thing I want to ask you about is this, Dr. Boyle. I do not want to open the question if the Commission think I should not, but I wanted to ask Dr. Boyle's opinion as to the factors which in his opinion govern the present depressed price of grain.

THE CHAIRMAN—Not at length.

Q.—No, because my next question is whether in his opinion this futures trading operation brings it about, and I am going to clear up something that the farmer has in his mind, just very generally then. A.—The world's low price of wheat, and why the low price of wheat is in the world?

Q.—Yes. A.—Of course, the stocks we know are very large, the supplies are undoubtedly much larger than the average of the past few years, taking the world as a whole, and there is no doubt in my mind that the consumption of wheat has fallen off, particularly in Europe in the last year or two, we will say due to the milling regulations in some countries, like France, or the substitutions of rye in Germany, and those two general classes regulate it. So it goes back to the simple thing that the demand has fallen off somewhat, and the supply has increased, and that pressure has made low prices.

Q.—And that is a world condition? A.—Yes, it is a world condition.

Q.—Then following that I will ask whether, in your opinion trading operations on the futures market are responsible for that depression? A.—No, I don't think there is any connection there at all. I don't see any connection.

Q.—One other thing: I don't know whether the Chairman wanted to ask you about the flexibility of demand.

MR. PITBLADO—I don't know whether you intended to inquire about that, Mr. Chairman, or did you cover it.

THE CHAIRMAN—I think I covered all I wanted to.

By Mr. Pitblado:

Q.—I see in one of your books you refer to the experience of Germany that had at one time a futures market and abolished it.

MR. PITBLADO—Does the Commission understand that situation?

THE CHAIRMAN—Yes, I personally studied that. I know the facts about the German abolition, and how it came to be restored.

MR. PITBLADO—And what happened afterwards?

THE CHAIRMAN—Yes, but do you think this is the best way of proceeding on a new subject? Would it not be better to put some document in on that.

MR. PITBLADO—This witness wrote on it at one time or referred to it.

By Mr. Pitblado:

Q.—Did you go fully into it? A.—I might say those documents are a reprint of the Consular reports.

Q.—You are referring to your reference to that in a book of yours? A.—Yes.

MR. PITBLADO—Perhaps that might be referred to.

THE CHAIRMAN—If you would kindly refer the Commissioners to the pages in Dr. Boyle's book we will see that they are read.

MR. PITBLADO—Yes, that is what I was going to suggest.

By Mr. Pitblado:

Q.—You have in your book "Speculation on the Chicago Board of Trade," dealt with that subject? A.—Yes, I reprinted the Consular reports of the American Consul in Berlin at that time, because it was supposed to be a factual report.

Q.—And at pages 182 and on for some pages, to 196, as I read your book you gave the story of that, and the history of it, as you were able to evolve it, Dr. Boyle? A.—Yes, sir.

MR. PITBLADO—That gives the pages in that book. I don't know whether you would like a copy of the book filed with the Commission.

THE CHAIRMAN—I think we should as you are relying on it as a piece of evidence.

MR. PITBLADO—Information, yes.

THE CHAIRMAN—I will give it a number when it is handed in.

MR. PITBLADO—I don't like to give this in as it is a private book.

THE CHAIRMAN—You can make an extract from it on those pages.

MR. PITBLADO—Yes.

THE CHAIRMAN—Sorry, Dr. Boyle, if you had visions for the moment of your circulation going up.

By Mr. Pitblado:

Q.—Just one other matter, as Dr. Boyle may not be back——. I don't know whether he has read this or not as we are not sure about the author of this article. You know Dr. Alonzo Taylor? A.—I don't know him personally, but I get the literature he puts out from the Food Research Institute.

Q.—Have you seen this article of the Food Research Institute in February on Wheat Studies? A.—Yes, I have all that series.

Q.—Have you read that article? A.—Yes.

Q.—There is an appendix which is the only part I am going to call your attention to, Dr. Boyle, now Exhibit 2, I think of our exhibits here, there is an appendix. I don't know whether you have read it or not, on selling futures for Russian account. Did you read that? A.—Yes. That is the same matter I treated on very lightly.

Q.—Yes, Dr. Alonzo Taylor treats on it somewhat fully here. A.—Yes.

Q.—Have you read that article? A.—Yes.

Q.—Do you or do you not agree? A.—Yes, I agree with him on that.

MR. PITBLADO—The reason I take that up is that Dr. Taylor treats of it much more fully than this witness did, and there is no use taking him over this if he has read it and agrees with it.

THE CHAIRMAN—Yes, I am trying to keep clear of Russia as far as we can.

MR. PITBLADO—Yes, he mentioned that particular thing in connection with it.

MR. COMMISSIONER BROWN—I should have asked a member of the Grain Exchange but I overlooked it, and I will ask Dr. Boyle.

By Mr. Commissioner Brown:

Q.—Are you aware, Dr. Boyle, that recently there has been a movement of the big speculator from Chicago to Winnipeg? A.—Yes.

Q.—You are aware of that? A.—Yes.

Q.—So that I suggest that whatever we might think of the past there is possibly some danger in the future.

By Mr. Commissioner Evans:

Q.—Might I ask if you know whether they have moved to Winnipeg? A.—They have just taken out a membership, or I understand that is what you mean, Mr. Chief Justice?

MR. COMMISSIONER BROWN—That is right.

MR. COMMISSIONER EVANS—You did not mean moved to Winnipeg then?

MR. PITBLADO—If the Commission like, we will bring a list of all our new members.

THE CHAIRMAN—I will take the Chief Justice's question one stage further.

By the Chairman:

Q.—Has that movement anything to do with a movement from a more regulated area to a less regulated area? A.—Well, I think it is moving from a more to a less regulated area.

Q.—For what reason, because the regulation is not liked? A.—They find it irksome, a good many of the large traders.

By Mr. Commissioner Evans:

Q.—Having in mind what the move means, wouldn't it be desirable to find out whether any change at all has taken place with respect to those individuals? They have all been able to trade in Winnipeg. Perhaps we might find out by inquiry if they have all traded here? A.—I think this should be said that you realize that the United States Farm Board dominates the wheat pit, so if a person wants to trade in wheat there is practically no Chicago wheat pit in the old sense of the word. The only wheat pit is the Winnipeg wheat pit, so long as the Farm Board completely dominates the market. It was that rather than regulation that brought about this change.

Q.—That has continued to operate ever since 1922 under this system of administrative regulation to which you have referred? A.—Yes.

Q.—And it would only have been after the government interfered with the actual merchandising of the grain and futures, if at all, that they were influenced to come here? A.—I think that is the point. It wasn't the regulation, as much as it was the domination of the Farm Board that drove some memberships up here. That would be my understanding of this, because they did operate for five years under the old system.

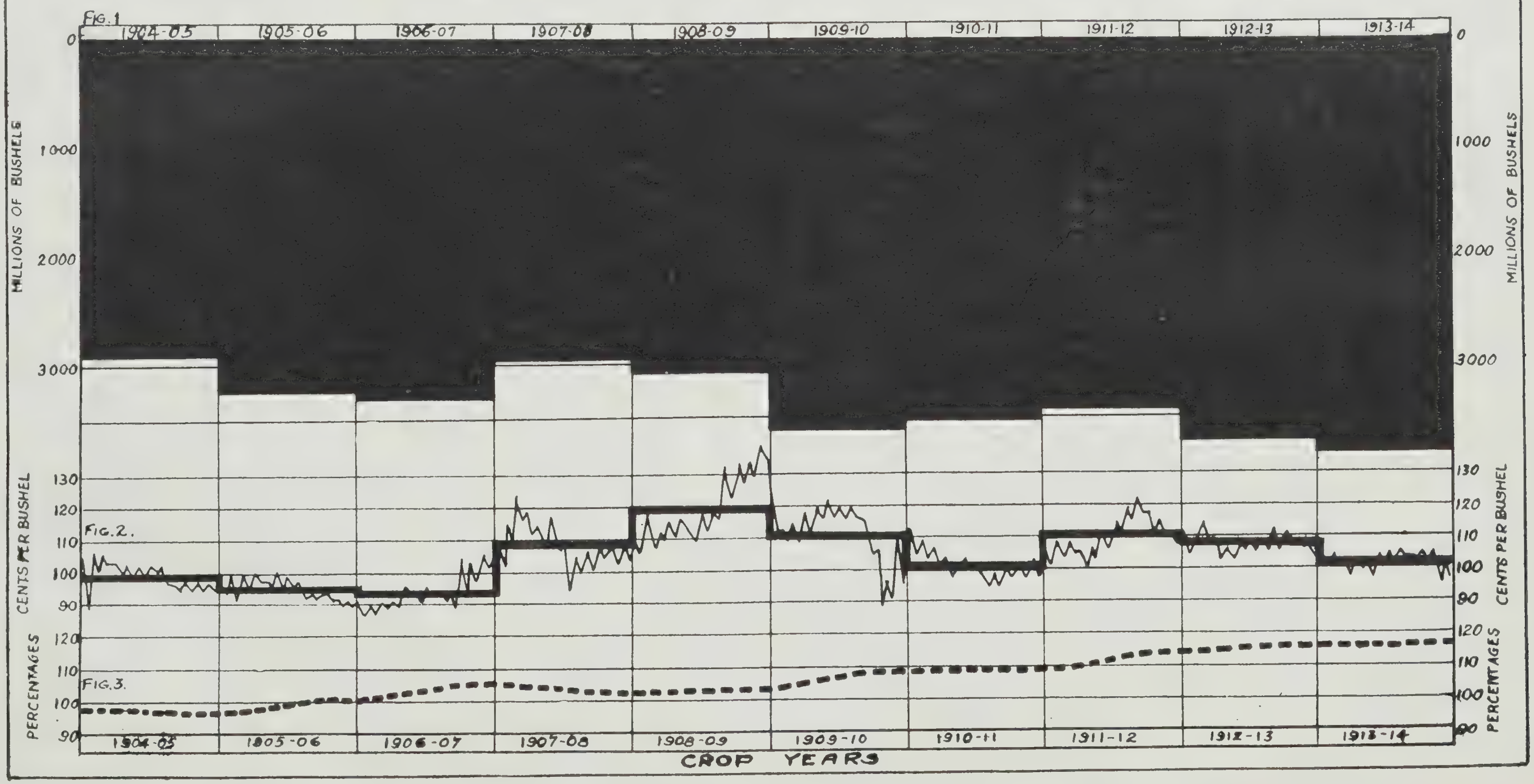
THE CHAIRMAN—Thank you very much for remaining so cheerful under such a long ordeal.

WORLD'S WHEAT CROP IN RELATION TO PRICES.

FIG. 1 TOTAL WORLD'S PRODUCTION OF WHEAT.

FIG. 2 HIGH & LOW MONTHLY PRICES & AVERAGE BY CROP YEARS OF CONTRACT GRADE WHEAT AT LIVERPOOL

FIG. 3 BRITISH BOARD OF TRADE INDEX NUMBER OF GENERAL WHOLESALE PRICES



Royal Commission on Grain Futures

10 a.m., April 16, 1931,
Royal Alexandra Hotel,
WINNIPEG.

MR. PITBLADO—Mr. Chairman, I have some further charts that I would like to put in as exhibits. I have been trying to get them ready so as to get them before the Commission as early as possible in case the Commission wants to look at them, or anybody else. I presented to the Commission first Exhibits Nos. 3 and 4 of what is called the World's Wheat Crop in relation to Winnipeg, and I have similar exhibits of the World's Wheat Crop in relation to prices at Liverpool. The references where they come from are all set out, that is the same line is shown and the same world's crop on the same line. On the second line there is the price per bushel, the same deviating line showing the deviating price and the average price and showing the British Board of Trade index on the wholesale prices and the reference attached to it as to where the statistics came from. As to this last, they are from 1904-05 to 1913-14, and the other from 1920-21 to 1929-30. With your permission I will put these in. They really ought to be put in in conjunction with the others that are there.

THE CHAIRMAN—The small one we will call exhibit 16 and the larger one 16A, the World's Wheat Crop in relation to Liverpool prices. Do you wish to call any witnesses to draw attention to any particular points in them?

MR. PITBLADO—I do not think so.

THE CHAIRMAN—You are leaving them to the Commission to deal with?

MR. PITBLADO—Whatever value they are, they are there. Then I have an exhibit of a different nature. It is called an exhibit showing the loss or gain of holding wheat for sale from the fall months until May 1st. There are two sheets, the first from 1904 to 1914 and the second sheet from 1920 to 1930.

THE CHAIRMAN—Results of holding wheat from the fall up to May?

MR. PITBLADO—Yes, Mr. Chairman. I will explain how they are made up.

MR. COMMISSIONER BROWN—What do you mean by fall?

MR. PITBLADO—I will give it to you.

THE CHAIRMAN—We will have this chart with the two sheets attached marked as Exhibit 17: Results of holding wheat for sale from the fall months to May, the first sheet from 1904 to 1914.

MR. PITBLADO—The first part is holding from September to May 1st.

MR. COMMISSIONER EVANS—That is the September price taken there?

MR. PITBLADO—I will come to that. The second is holding from October to May 1st, and the third from November to May 1st, and the fourth from December to May 1st. Those are the blocks. These particular prices are all attached at the back. I will come to those. If the centre black line is zero mark, the loss or profit would be from that. That zero line is the average cash closing price. If you look to the typewritten sheets you will see what that is, the average cash closing price of No. 1 Northern.

MR. COMMISSIONER EVANS—That would be the average closing price for the month of September.

MR. PITBLADO—The average daily closing prices for the month of September of cash wheat on the Winnipeg market. That is what that is. This first column is the average cash closing price on the Winnipeg market. The second column is carrying charges to May 1st, and that is made up of one cent a month which is the elevator carrying charge. That covers storage and insurance, and the other part of the carrying charge is interest on the cash price calculated at seven per cent per annum. Those are the two items which make up the carrying charges.

MR. COMMISSIONER EVANS—That one cent per month would be equivalent to one-thirtieth of a cent a day?

MR. PITBLADO—If you have your full month it is. That is the charge fixed by the Board of Grain Commissioners.

THE CHAIRMAN—It is simple interest at seven per cent per annum?

MR. PITBLADO—Yes, Mr. Chairman. Then you have got a column showing the total cost of holding. You get the addition of the average cash closing price plus carrying charge. It is simply a matter of addition. The next is the actual closing cash price on the Winnipeg market of the same class of grain, No. 1 Northern, on that particular day. Then follows on the other side the loss or gain as the case may be for all those years, and then at the bottom of the first block, what might be called the average loss during the year. That is worked out.

THE CHAIRMAN—That is the net result of the whole lot treated as one experiment?

MR. PITBLADO—Yes, Mr. Chairman, this covers the same calculations for the second of those two charts and the same calculation is there for that again and that calculation is set out in exactly the same way.

THE CHAIRMAN—Would you mind if we re-calculate by taking the year 1920 out altogether?

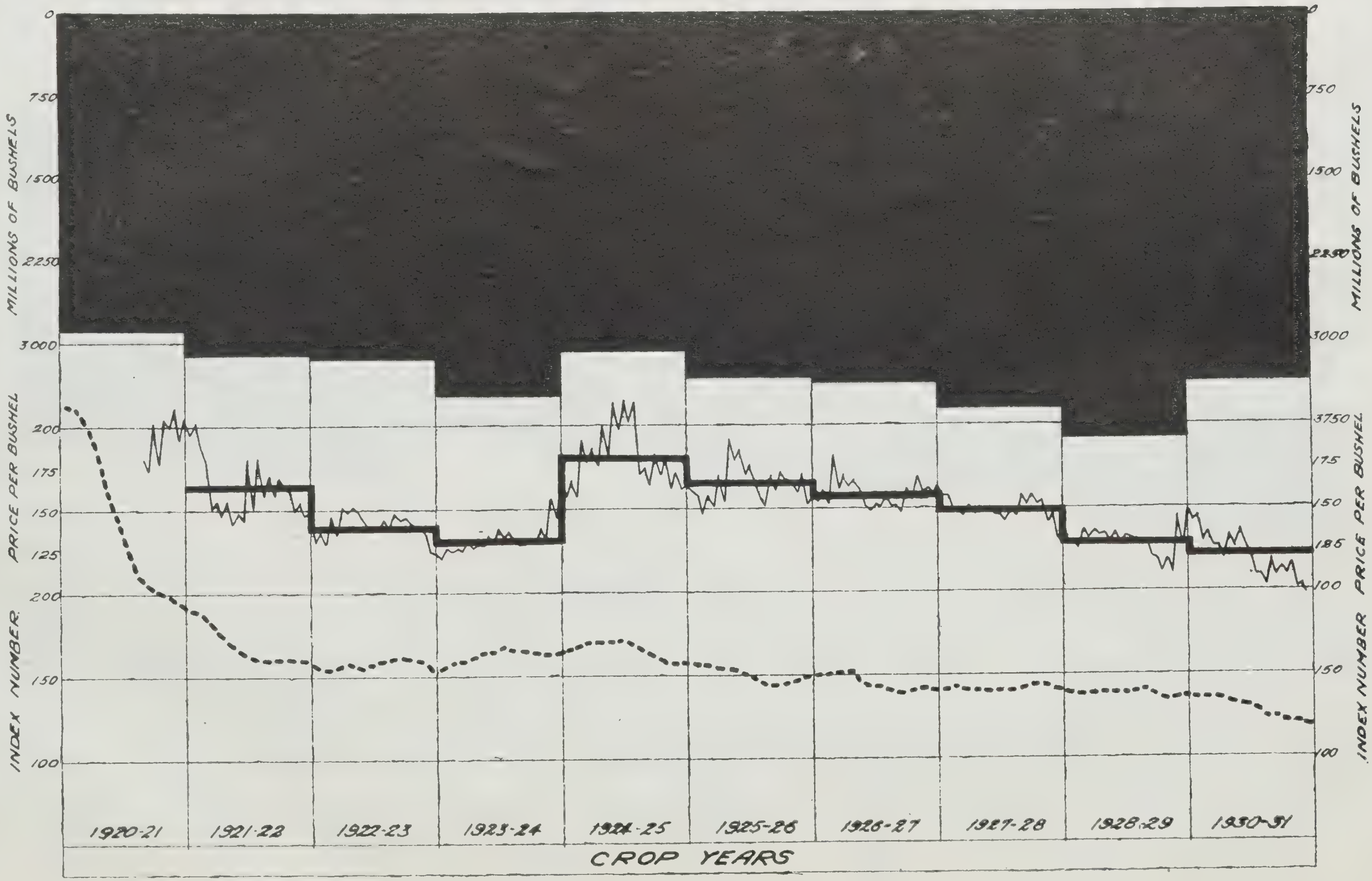
WORLD WHEAT CROP IN RELATION TO LIVERPOOL PRICES

1920-21 TO 1929-30

FIG. 1. WORLD CROP [EXCEPT RUSSIA] – SOLID BLACK

FIG. 2 MONTHLY HIGH, LOW AND AVERAGE BY CROP YEARS LIVERPOOL WHEAT FUTURES — HIGH AVERAGE LOW

FIG. 3 BRITISH BOARD OF TRADE INDEX NUMBER ON GENERAL WHOLESALE PRICES - - - - - -



MR. PITBLADO—1920 is not in except in this way, that is the 1920-21 crop.

THE CHAIRMAN—Where the trouble with this may come in is that it may be confusing to compare normal things with the tremendous fall in world prices. You started with your fall in prices in May 1920. This went on for the year 1920 and 1921, therefore for the year 1920-21 the crop is an abnormal thing. We might get a fairer view of the general effect if we cut it out altogether.

MR. PITBLADO—I am giving these particulars and from them you can advance your own conclusions. The second sheet for the months of November and December of the same year has been worked out in the same way.

THE CHAIRMAN—And this month of October?

MR. PITBLADO—September, October, November and December in each one of those years, and then for the purpose of showing this it has a block on these front two charts. If you go back again to the charts, Mr. Chairman, you will see that this loss is shown in blocks in cents, gain or loss as the case may be, blocks 5, 10, 20 or 25 cents, as the case may be per bushel, and the blocks with the black marks that run upwards are the gains and the ones that run downward show the losses on that graph. I am instructed that they are drawn as correctly as one can draw them to show the figures that were attached to it. I need not say that one reason why this was prepared was because I think we had a witness in the box yesterday, the gentleman, Mr. Gourlay, who said something. I did not read his evidence, but my recollection of it is that the farmer had an idea that there was some depressing influence that came on the market in the fall when wheat was being delivered that gave a much lower price at that time than would have been obtained if the grain were held till a later time. That is one of the objects in showing that.

THE CHAIRMAN—It is a very useful piece of work and we thank you.

MR. PITBLADO—I would like to call a witness as to this question that has been troubling the Commission about receipts and purchases at the country elevators, that is the percentage of the farmers' grain.

A. C. REID (called).

By Mr. Pitblado:

Q.—You are holding what position and with what company? A.—Assistant manager of the Western Grain Company, more particularly to look after the country elevators.

Q.—Mr. Reid, your company has a large number of country elevators, I believe? A.—Yes, we have 240 elevators in all three provinces, mostly in Saskatchewan.

Q.—I am not going to weary the Commission with Mr. Reid's evidence on that general issue that we have had before us. Mr. Reid, do you follow the practice that the other elevator people here have stated they followed, that is of hedging their purchases as they make them? Do you hedge your purchases of grain as you make them? A.—Absolutely, we hedge every day.

Q.—Also, I believe, Mr. Reid, you are vice-president of the Winnipeg Grain Exchange? A.—One of the vice-presidents.

Q.—Since the enquiry started, have you had enquiry made from your elevator companies that gather up grain in the country as to the receipts and purchases? Take this last year at country points and at the country prices. A.—Yes, there was a good deal of discussion before the Commission as to how the grain was sold by the farmer. There seems to be confusion between the marketing and the actual selling, I would call it country deliveries and actual sales. There is a popular impression that wheat is all sold when it is delivered in the fall. This is not correct, from my experience the individual farmer distributes his sales I would say pretty well——

By the Chairman:

Q.—Let us come to this statement, we will work from that. You have returns from how many elevator companies? A.—We have had returns in detail as shown on this statement from twenty elevator companies.

Q.—This statement then is the result of returns from twenty elevator companies whose returns have been compiled to make the one statement? A.—That is correct.

Q.—Take 1929 receipts to date, what does that statement show? A.—Those are the deliveries to those elevators by the farmers in bushels of wheat.

Q.—The twenty elevator companies represented a very large number of individual elevators? A.—Yes. That figure excludes the Pool grain. We do receive on account of the Pool considerable grain, but those deliveries were excluded.

Q.—These are deliveries of grain from other than Pool members? A.—Yes.

Q.—Receipts to date, purchases to date, what does that represent? A.—That represents the purchases made up to the end of August.

Q.—That is your year, your crop year begins? A.—On the first of August.

Q.—That is the grading of the grain? A.—Yes.

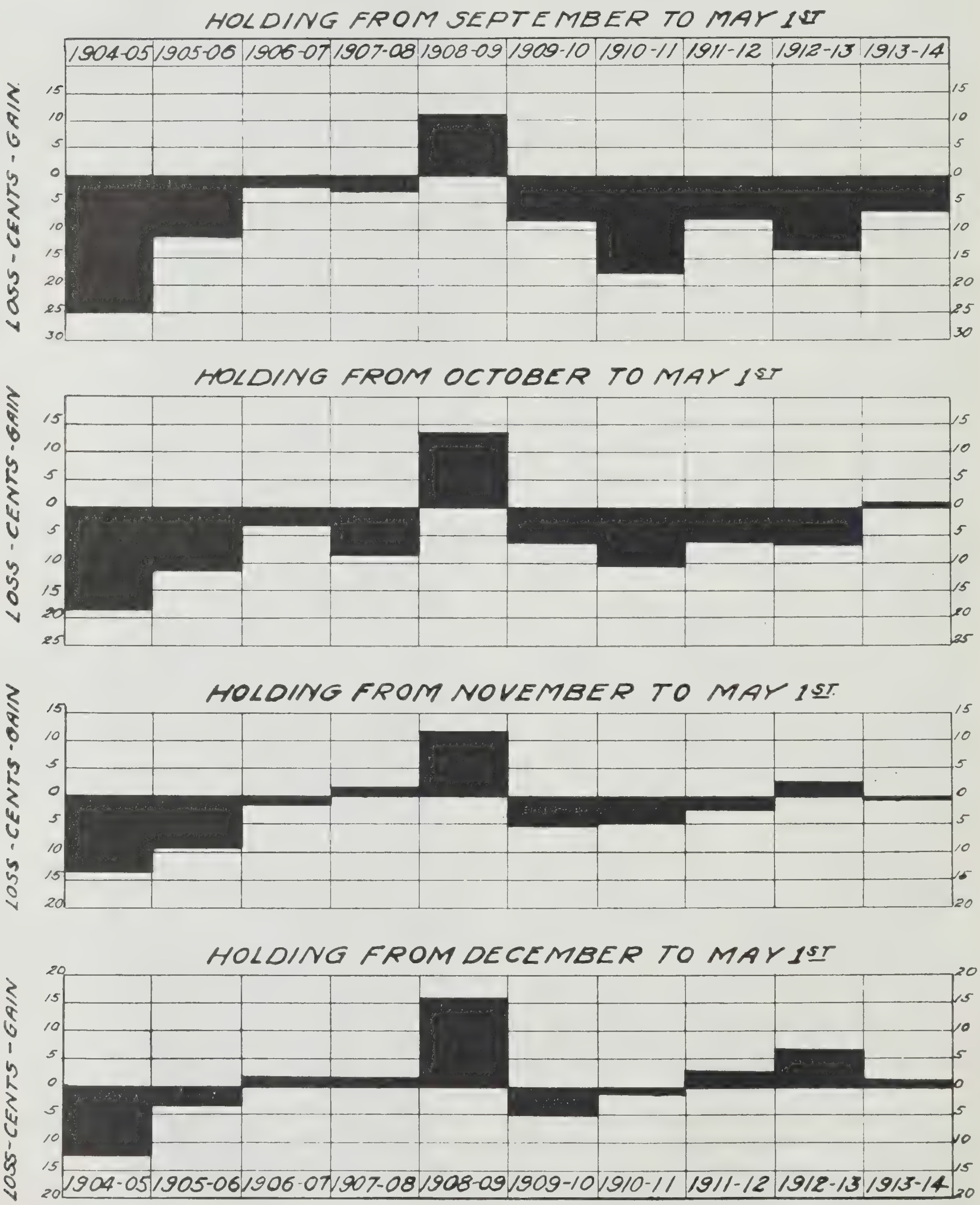
By the Chairman:

Q.—Are these receipts and purchases strictly related to the figures in the first column? A.—Yes.

Q.—And do not relate to anything in stock before that? A.—No.

LOSS OR GAIN BY HOLDING WHEAT FOR SALE FROM FALL MONTHS UNTIL MAY 1ST

1904-05 TO 1913-14



By Mr. Pitblado:

Q.—This statement shows that during August all these elevators received 5,884,533, and their purchases were 2,698,214 bushels? A.—Yes.

Q.—And you have the percentage purchased worked out and for the month of August it is shown as 45.85 per cent? A.—Yes, 45.85.

Q.—That is in the month you purchased 45.85 per cent of the farmers' grain that came into your twenty elevator companies? A.—That was the percentage purchased of the total amount delivered to the elevators in that month.

Q.—You have opposite that, monthly average price paid to producers—basis 1 Northern, Fort William-Port Arthur. How is that average price made up? A.—We took out the prices for 1 Northern in store Fort William that day and that is made up by taking the daily purchases, that is, the prices are made up on the basis of 1 Northern in store Fort William.

Q.—And where it was not 1 Northern you brought them into a common factor of 1 Northern? A.—It is all based on 1 Northern, but the reason it is nearly the exact amount of the monies paid, is that the crop in 1929-30 was largely No. 1 Hard, 1 Northern and 2 Northern, and I think I am correct in saying that ninety per cent of the crop that year was in these higher grades. I think Mr. Evans possibly can check me on that.

Q.—Well, then, take the next month. You show on this statement 37,883,469. That is the total receipts, including the receipts up to date? A.—That is the accumulative total. In other words, the receipts for September would be that figure less the August receipts. The actual receipts for September would be 32,000,000.

THE CHAIRMAN—The first column is really the accumulative receipts?

MR. PITBLADO—Yes. It is headed so.

By Mr. Pitblado:

Q.—And in the next line the accumulative purchases to date are the same, are they? A.—Yes, the same way.

Q.—So that at the end of September your total purchases were fifty-nine per cent of the accumulative receipts? A.—Yes.

Q.—And by the end of November in that year they were 75.78 per cent of the accumulative receipts? A.—Yes.

Q.—And so on, showing the figures throughout. I find, in checking them through, they show some more was coming out each month? A.—Yes.

By the Chairman:

Q.—Between October 31st and November 30th, I see you purchased more than the deliveries of the month? A.—Yes, sir. We have no way of segregating our purchases as to the actual date of delivery.

Q.—It is interesting that at that point you were actually purchasing some of the grain in stock? A.—Yes. In November and December the actual new deliveries were about 3,000,000 bushels and our purchases were 4,500,000.

By Mr. Commissioner Evans:

Q.—Before going further, even on July 31st at the conclusion of the twelve months there was still almost thirteen per cent of your deliveries which the farmers had not sold? A.—That is correct.

Q.—So the farmers held even longer than the completed crop year, some of them? A.—Yes.

By Mr. Pitblado:

Q.—There has been a yearly average made out of the price there and I just want to ask before I come to the next item: there are, of course, for this grain not purchased the tickets that the Canada Grain Act calls for? A.—Yes. There are outstanding storage tickets. We don't know who holds them.

Q.—They are in the farmers' hands, or in the hands of someone who represents the farmers? A.—That would be the thirteen per cent represented by outstanding storage at that date.

Q.—And for which the tickets have not come back. The tickets all come back to the elevator when the grain is taken from them or purchased by them. Then, Mr. Reid, you have a little column there of Receipts and Purchases, and then you have five other companies added to that? A.—Yes, sir. We wanted, in making up these figures, to try and account for all the deliveries in the country, so as to have it truly representative, but we were only able to get these figures in detail from twenty companies, representing 76,000,000 bushels; so on this sheet we put the total deliveries in the country for that crop, which amounted to 236,000,000, and we have deducted the Pool receipts, 121,000,000, leaving a balance to be accounted for of 115,000,000 bushels.

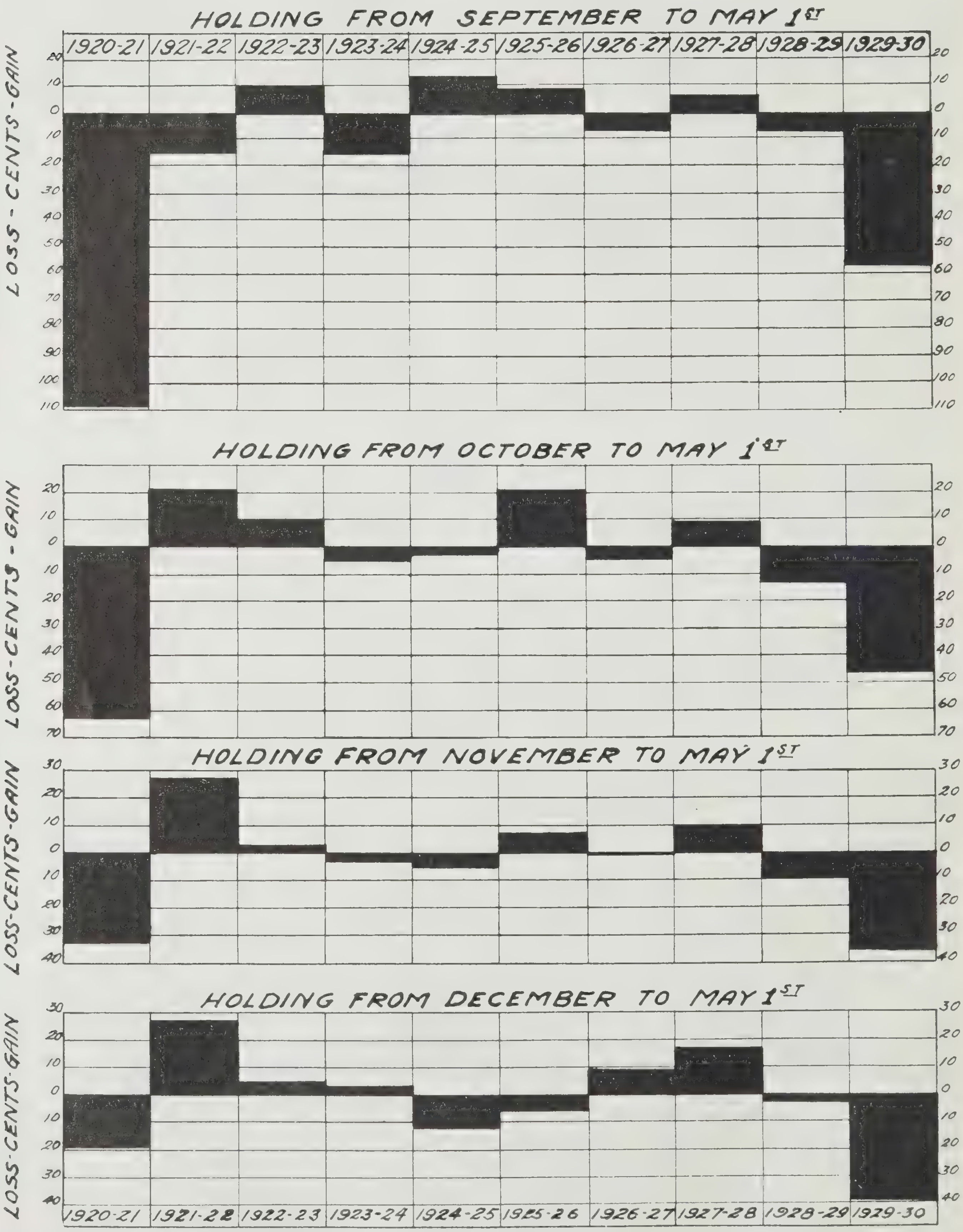
By the Chairman:

Q.—In your elevators? A.—Yes.

Q.—You succeed in accounting in this total for 106,000,000? A.—Yes.

Q.—29,000,000 of which are incapable of being separated into months. I have got that. But it is for 76,000,000. A.—I may say in that connection I saw most of these individual returns from the companies and it was surprising within what a narrow range the average came, the average we have given of \$1.34¾.

LOSS OR GAIN BY HOLDING WHEAT FOR SALE FROM FALL MONTHS UNTIL MAY 1ST
1920-21 TO 1929-30



Q.—The individual companies were not widely different from the aggregate? A.—No. I think I can say, from $1.24 to $1.36.

By Mr. Commissioner Evans:

Q.—We have some evidence from one company that their average was $1.32. A.—Our own company, as a matter of fact, was $1.32⅝.

By the Chairman:

Q.—Do you mind telling me, in case I come back to this in private study, whether that yearly average figure is an arithmetical average of the months above, or a weighted average? A.—No, sir. It is a true weighted average. $1.34¾ is a true weighted average. As a matter of fact, we had that checked again last night.

Q.—And you give your own figure of that? A.—Yes.

MR. PITBLADO—May I, through Mr. Reid, Mr. Chairman, give Mr. Hayles' figures. He said he thought it was something and he was to look that up. I have that with me now. I have a letter from Mr. Hayles, who was in the witness box and who was asked the question, what is the average price paid to the farmers up to the 31st July? This is his answer: "$1.35.29, basis number one, Fort William."

By Mr. Pitblado:

Q.—That is one of the companies in this general average? A.—Yes, sir, that is included in here.

By the Chairman:

Q.—Have you any comments, Mr. Reid, upon the way in which this monthly average price falls? A.—What do you mean, sir?

Q.—You have a constant trimming down from $1.55 to .93c, with fairly regular intervals of .07. A.—I would say that the reason for that price being as good as it is, in that particular year, the farmer sold quite freely in the fall. I would say, from my experience, in that year they sold earlier in the season than in the average year. I imagine that the decline in price had something to do with it; that and the fact that it was a very good price. Generally speaking, I think that farmers use a good deal of judgment in selling. Now, as a matter of fact, just the last few days we have had a little advance in the market and yesterday, talking to the country operators, they told me that sales from the farmers had increased quite heavily.

Q.—Would you expect these prices to fall by storage, or other incidents, as the months go by? A.—By storage, sir?

Q.—Is there any natural incident in that decline in price? A.—I think there is a very significant factor there. We had prices declining all over the world that year.

Q.—Is there any other reason than that? Is that the net price received by the producer after paying all the charges for storage?

MR. SWEATMAN—That is the price on the basis of Fort William.

By the Chairman:

Q.—That is entirely due to the price change and not to anything for storage and interest? A.—That is correct, sir.

By Mr. Pitblado:

Q.—The crop year of 1929-30, was this a normal year? As I understand from your evidence, you rather suggest it was not a normal year as to these percentages of purchases coming out? A.—It was an abnormal year in many ways. We had an extremely short crop in Canada. We had, as has been said before, a general bullish feeling. There had been a lot of statements made to the effect that wheat was worth a lot more than it was selling for and that in itself induced a lot of people to get bullish and it brought a lot of speculation into the market.

Q.—I am talking about this selling. A.—I think the reason why the farmers sold more freely, one reason was we had a short crop, and there were a great number of farmers who in ordinary times would have carload lots or more of grain and would ship it forward to terminal market before they disposed of it, who did not have enough for carload lots and sold it as they brought it in; that, coupled with the attractive price.

By the Chairman:

Q.—There was rather stronger selling by the farmers than in a normal year? A.—Yes.

By Mr. Pitblado:

Q.—You have not got the figures out for this year? A.—No. I had hoped yesterday to have them but there is a lot more work in getting these figures from the various companies than would appear on the surface and we have not been able to get them.

Q.—You will have them when the Commission comes back? A.—Yes, we will try and get them.

By Mr. Commissioner Brown:

Q.—It is quite noticeable that the heavy deliveries and heavy sales were made in September and October? A.—Yes, sir, that is true.

Q.—That is characteristic, is it not? A.—That is when the heavy deliveries are made, but I would not say that the heaviest sales are necessarily made. Every year it is different.

Q.—I am simply asking you if that would not be characteristic as a rule, if that does not characterize the farmers' practice over a period of years? A.—I would say, generally speaking, that about forty to fifty per cent of the grain is sold as it is delivered to the elevator and the balance is distributed pretty well over the year. Of course, as you come to the end of the crop year, getting less and less, but I would say that the selling from the farmers is very much like the market price, there are no two years alike.

By the Chairman:

Q.—Supposing that somebody put the question to me, what is the average quantity in the elevator that the farmer is carrying at his own risk, I would say, "The best information that I have is that it is about twenty-five per cent, varying from thirty per cent at the beginning of the crop year to about fifteen per cent at the end," would that be a fairly good rough answer? A.—I think that in the usual year there would be a little larger proportion carried by the farmer unsold.

By Mr. Commissioner Evans:

Q.—But that would apply only to the country elevator, not to the grain in the terminal; or does that apply to the terminals, too? A.—Well, I can give you an illustration. Yesterday afternoon I had eighteen firms make up their country elevator stocks and tell me how much was being carried in store for farmers' account and they figured roughly to forty-five per cent. The figures that I got made up about sixty per cent of the total country elevator stock, as shown in the official figures at this date. It is reasonable to suppose that a large part of the balance would be in Pool elevators.

Q.—Of that sixty per cent of the total held by the line elevators in the country elevators at the present time about forty-five per cent is held to farmers' account? A.—Is what we call outstanding storage.

Q.—And the difference between that, would that be represented by what you have transferred to terminals? A.—That was carried forward.

By Mr. Commissioner Brown:

Q.—The bullish prices in September, is that characteristic? A.—No, sir. As I said a little while ago——

Q.—Well, August particularly. It starts off at $1.55. A.—Well, of course, 1929 was an exceptional year. I think it is commonly admitted that prices went far too high in view of actual world conditions that year.

Q.—What I am trying to get at is the full picture. Is that characteristic of the full picture? A.—No. I remember very well the year 1922. We had gone through the deflation of 1920 and 1921 and deliveries in 1922, for certain reasons—I remember that year particularly well—were very heavy, in September particularly. The crop came in early and in spite of the heavy deliveries and pretty free selling by the farmer, prices advanced steadily that year until the end of November. The November future closed at $1.15, I remember.

Q.—That is, prices advanced? A.—Advanced steadily in the face of, I would say, what appeared to me to be very heavy selling by the farmers, that particular year. Of course, there may have been world conditions for it.

Q.—Would you say that was an exceptional year, too? A.—Yes. I can tell you another year, 1928. We had in 1928, I think, the full effect of the combine and truck delivery and yet prices held up for six months in spite of heavy delivery. That was the year 1928.

Q.—You would have perhaps a fair idea—you have been in this business a long time—of the general picture. I put it to you that way. Is it generally characteristic that the price is better for the August or early September delivery than for October and November? A.—Well, of course, August is a peculiar month. Latterly, since we have accumulated big carryovers, we have never had what you might call keen demand and big premiums for cash wheat in August. In previous years, when there was practically no carryover and some people might want wheat in quite a hurry, could not wait for the new crop, I have seen very big premiums in August, but the fact of the premiums being there was because there was no wheat available to satisfy the demand.

Q.—There was no wheat available; that is the explanation? A.—That is why the price went up.

By Mr. Commissioner Evans:

Q.—Just as a matter of detail rather apart from this question it occurred to me that there is one transaction which I think is perhaps fairly common and which helps to account for the volume that goes through the Clearing House in relation to the actual amount of hedging, that has not been brought out. Your company has a membership in the Clearing House? A.—Yes, sir.

Q.—And you conduct hedging transactions? A.—Yes, sir, we do our own hedging through our own man who is in the pit all the time, and we do some of it through pit brokers.

Q.—In connection with putting that through pit brokers, you occasionally switch a hedge from one month to another? A.—Yes, sir. We do a lot of that. Most of that is given out to brokers.

Q.—Most of it given out to brokers? A.—Yes, sir. They are in a better position to do it. They have nothing else to think about and very often they have a big volume of trade and they are better able to do it than our own men, who have other things to look after.

Q.—Well, then, if you, for example, gave an order to a broker to spread a hedge from October to November say, or October to May, that broker would buy in the first leg? A.—Yes.

Q.—That would make one transaction. Suppose your hedging was for 20,000 bushels—or it might be any other figure—he would buy in that hedge, and then he would sell November? A.—Yes, sir, whatever the spread was it would be up to him. We usually give these purchases at a limit, and it is up to him to decide which leg he will lift first.

Q.—But there would be two transactions. Then how would that come into your account? He would also put through the Clearing House your trade, your slips showing in the first place a purchase from you? A.—Yes.

Q.—And in the second place a sale to you? A.—I think I see what you are after, where the brokerh has a clearing membership and we have a clearing membership, there are two ways we might do it. If we didn't care whether anybody knew what we were doing, we would tell him to give up our name, and to the man he made the trade with he would say "Western Grain," and it would go into the Clearing House in our name. More often we don't want people to know what we are doing, and we tell him to give up his own name, so it goes into the Clearing House under the broker's own account. Before the close of the market he puts another slip in to the Clearing House transferring it back to us, so that it would go through the Clearing House four times, representing one transaction.

MR. COMMISSIONER EVANS—That is the point I had in mind. You see the point: there is one simple hedging operation, no increased business; but in the transfer of the hedge from one month to another it might appear in reports of the Clearing House at four times the volume.

THE CHAIRMAN—Quite right.

By Mr. Pitblado:

Q.—There is another point. You are vice-president of the Exchange? A.—Yes, sir.

Q.—And you heard yesterday some mention about a number of Americans that have come over here and joined the Exchange within the past year? A.—Yes, sir.

Q.—I don't know how far I want you to read that list—have you a list before you of the number of new American memberships in this Exchange since January of 1930? A.—Yes, sir. I made it my business to get that yesterday in view of the comment that had been made.

Q.—How many of them were there? A.—Nine.

Q.—You have a list in front of you. We will give copies of this. I would ask the Commission to look over the names without reading them out.

THE CHAIRMAN—This will be Exhibit 19, a list of members handed in by Mr. Reid. Is he responsible for it?

WITNESS—Yes, sir.

(EXHIBIT NO. 19—List of residents of America joining the Winnipeg Grain Exchange during 1930.)

Q.—You got it from the records of the Exchange? A.—Yes, I looked it up this morning.

Q.—They are the new American members who have come in here since January 1930, and there are, as you said, in all how many? A.—Nine.

Q.—Not seventeen? A.—No.

Q.—Seventeen was mentioned? A.—Yes.

Q.—How many of those nine have come to Winnipeg? A.—Only one, sir. He was not from Chicago; he was from Minneapolis.

Q.—And he is here now? A.—Yes.

THE CHAIRMAN—Number one? A.—The first name on the list.

Q.—Have any of these others moved to Winnipeg? A.—No, sir, none of the others.

THE CHAIRMAN—When you say "moved" you mean moved their business, their office, or residence?

MR. PITBLADO—Moved their residence or their office I think I am correct in saying that none of them have offices here either.

THE CHAIRMAN—They have merely got their names——

WITNESS—They merely bought a membership. Most of these, as you will see, are what we call brokers in commodities, stocks——

By Mr. Pitblado:

Q.—While you do not know, Mr. Reid, from general knowledge of the Exchange, you have an idea what their idea would be in coming here? A.—Yes, sir. I presume that in view of the Winnipeg market becoming a larger world market, and more demand for business to be done here, they have decided to buy a membership and get members' rates.

Q.—Members' rates? A.—Yes, that is what I think is behind it.

Q.—Members' rates are less than other people's rates? A.—Half of non-members' rates.

By the Chairman:

Q.—That is the chief advantage to be got? A.—If your volume of business is large enough, I would say, in dollars and cents, it would pay to have a membership. If your volume of business is not large enough, and you did not have an office here or have a representative here, then I do not know what their idea would be.

By Mr. Commissioner Brown:

Q.—Would that indicate that their possible intentions are to trade more largely on this Exchange? A.—No, sir: I can say in the case of one of these gentlemen whom I talked to when he came up here, he said at that time that he had always traded largely in Winnipeg, and the fact that he got a membership was not going to make any difference.

By the Chairman:

Q.—Is this a representative list? Would you have a similar list for previous years? A.—Yes, sir, I would say that there is a change of membership going on all the time. New York exporters, they will change, a company will change, or the personnel, and the one member will withdraw and another man will be nominated. There are constant changes in membership.

Q.—Would you have an accession of immigrants of nine per annum? A.—I would say we are liable to have more.

Q.—This is not an exceptional year? A.—No. I was surprised when I checked up for this length of time and found there were only nine.

By Mr. Commissioner Brown:

Q.—Have you any record or do you keep any records of the capital behind the membership? A.—Yes, sir, before a man is admitted to membership we have a financial statement from him, and the application for membership carries a lot of details.

Q.—Would you say that this list that you have submitted is exceptional in its strength? A.—You mean in financial standing?

Q.—Yes. A.—No, I would not say so.

Q.—Do you know? I mean have you investigated that feature of it? A.—I have not investigated it in comparison with all other memberships.

By Mr. Pitblado:

Q.—Now I come to two names that have been in the paper—or one has. I see the name of Mr. A. W. Cutten, of Chicago, on here. A.—Yes, sir.

Q.—So far as you know has Mr. Cutten been operating any more on this market since his membership than he was before? A.—I do not know.

Q.—Any sign of it? A.—Well, I would not know. That is one thing about the market, I would say, that nobody knows, except the man who is executing the orders, who is operating in the market.

Q.—The last name, a gentleman by the name of Bartlett, registered under the Farm Board; what firm did he hand in? A.—He registered the Farmers' National Grain Corporation. We were informed that was an operating subsidiary of the U.S. Farm. I am not quite sure of the title—Farm Stabilization Board, commonly called the Farm Board.

By the Chairman:

Q.—Do they operate to your knowledge in the futures on this market? A.—Not to my knowledge. My impression is they do not; that is my impression. I have nothing on which to base it. As I mentioned a little while ago, we have no way of knowing who is trading on the Exchange except by direct knowledge if we handle the account.

Q.—You couldn't tell us, I suppose what proportion of the total membership of the Winnipeg Grain Exchange would consist of names like this, that have gradually come in here year by year? A.—No, sir; I couldn't tell you.

Q.—Would it be ten or twenty per cent—you have got how many—400 and how many? A.—Four hundred and sixty-three our Secretary says.

Q.—If you had six years like this that would give you ten per cent? A.—I would say the classification of the membership ebbs and flows. I think I am safe in saying that by far the larger number of members represent actual cash handlers of grain, elevator companies, shippers, exporters and importers and so forth.

Q.—And they would not come in so much to increase their business as to get a better term on what they do do already. Is that right? A.—Yes.

Q.—By being members. A.—I would say, generally speaking, in my opinion it is the volume of business that they do that induces them to become members, and a lot become members because they have a representative here who keeps them in direct touch with crop conditions and one thing and another like that that you can best get from a representative on this market.

By Mr. Pitblado:

Q.—Isn't it true, Mr. Reid, that so far as membership in the Exchange is concerned, it must be in the name of an individual and not a company? A.—Yes, sir, the basis of membership is the individual, and then he registers the company.

Q.—So that if an individual seat is registered for a company, or if a company is registered on the individual, and that individual leaves the company, or moves round, that means a change in membership? A.—Yes, sir, another member is nominated.

Q.—And those changes come about all the time? A.—I would say those are the bulk of our changes.

By Mr. Sweatman:

Q.—The period covered by Exhibit 18, which is the 1929-1930 year; wasn't that a rather unusual year. A.—Yes, sir, it was in many ways.

Q.—Could you give us the same information as in Exhibit 18, for one or two normal years without very much work? A.—No, sir. The line elevators don't keep their records. I have already tried to get that. This is something that until this grain question has become such a live topic we have never bothered much about, only in a general way. We don't keep our records after the year is finished.

Q.—So that the record covered by Exhibit 18——. A.—That is as far back as we can go. We can make up the current year.

Q.—That is even worse, as far as being abnormal; the present year is almost worse? A.—Well it is abnormal as to low price. The fluctuation is not as severe as 1929-1930.

Q.—You haven't any idea how these figures work out in the current year? A.—No, sir, I wouldn't like to say until we have the figures.

MR. PITBLADO—We can get them, Mr. Sweatman.

Q.—Could you say now the total amount of special bin in the elevators, without very much trouble? A.—The total quantity?

Q.—Yes. A.—I don't know whether the Commission would like the total quantity held for farmers' account made public. It could be got.

THE CHAIRMAN—Made public? Not at the present time. We don't want this Commission to deal with any open situation at all.

Q.—This Exhibit 19, is this a list of all the members that have come in within these dates? A.—That is a correct list of all the new members since January 1930, and it goes on up to March 4th.

Q.—Is there any significance in the fact that all come from New York and Chicago? Is that unusual—there is one from Minneapolis—all outsiders in the grain trade? A.—No, I don't think there is anything unusual about it.

THE CHAIRMAN—Where else can anyone come from?

MR. SWEATMAN—I mean in Canada—it is rather peculiar all from the States.

WITNESS—Perhaps they have more money there than we have in Canada.

THE CHAIRMAN—You mean they had at this date, or now?

WITNESS—At that date, sir.

MR. SWEATMAN—This is limited to residents of the United States; I didn't notice that.

MR. COMMISSIONER BROWN—I thought this was new membership.

WITNESS—This just deals with the members from the United States.

THE CHAIRMAN—This is the list of immigrants.

WITNESS—It is a list, sir, of residents of the United States, who have become members of the Winnipeg Grain Exchange since January 1930.

By Mr. Sweatman:

Q.—Is it usual to get nine from the United States in a year? A.—Again I would not like to say offhand, but my impression is yes, probably more in the average year.

THE CHAIRMAN—Thank you, Mr. Reid; that table of yours is a very useful one indeed.

FRANK O. FOWLER (called).

By Mr. Pitblado:

Q.—Mr. Fowler, you are the manager of the Clearing House—I just haven't at my fingers end the full title of it. A.—Winnipeg Grain and Produce Exchange Clearing Association.

Q.—How long have you been in that position, Mr. Fowler? A.—Ever since it was incorporated. At least ever since it commenced operation.

Q.—What year was that? A.—In 1904, February 2nd.

MR. PITBLADO—I corrected the date you had before of 1903. I don't remember who gave it.

THE CHAIRMAN—Some early evidence that we had.

MR. PITBADO—But it actually was 1904.

Q.—And you became its manager and have been its manager ever since? A.—Yes.

Q.—Have you prepared a short memorandum as to the functions of the Association? Have you that there? A.—Yes, sir.

Q.—Will you read that? (Statement read by Mr. Fowler as follows):

"The Winnipeg Grain and Produce Exchange Clearing Association obtained incorporation under the Joint Stock Companies' Act of Manitoba, in June, 1901. Its incorporators, along with others, after having a few years' experience in handling the grain crop of the West, during which they protected their purchases in the country with hedges in Chicago, decided they could not continue placing their hedges in a market in which they could not

make delivery, and consequently through the Winnipeg Grain and Produce Exchange established a futures market in Winnipeg, where futures contracts could be completed by the delivery of, and payment for, the grain stipulated in such contracts. Then, for the purpose of more efficiently and economically exchanginig the daily balances due to the fluctuations in the price of grain and for the added security to contracts, a number of members of the Winnipeg Grain and Produce Exchange established this Clearing Association. Not all members of the Exchange are members of the Clearing Association, but all members of the Clearing Association must be members of the Exchange.

"All futures contracts made on the trading floor by members of the Association, unless otherwise agreed upon, are cleared through the Association. Members of the Association also in many cases clear futures contracts made by other members of the Grain Exchange who are not members of the Association.

"The Association assumes the position of seller to the buyer and buyer to the seller on all contracts of its members accepted by it for clearing, and guarantees the fulfilment of all such contracts. It has $700,000 of liquid assets available as security for the fulfilment of all such contracts——" Well, to be exact, it is $699,886.21, as security for all the contracts that are undertaken—"but in addition, the manager has full power and authority to call upon the member in whose name the contract stands in the books of the Association for such additional security as in his judgment he may think necessary to insure the fulfilment of the contract.

"Clearing Futures Trades. This is the primary function of the Clearing Association. The Association accomplishes with reference to transactions in grain for future delivery made on the open market of the Grain Exchange essentially the same results as a Bank Clearing House performs for member banks. In the one case, the clearings are made for members covering accounts involving fixed values—that is, the ownership of money or acceptable commercial paper. In the case of the Grain Exchange Clearing Association, clearings are made for members for accounts involving the transfer of ownership in grain of definite grade, but of fluctuating value. It is this fluctuation in the value of grain which gives rise to the margins required by the Clearing Association. Upon the acceptance by the manager of transactions in grain for future delivery, the Clearing Association assumes the position of buyer to the seller, and seller to the buyer, in so far as its members are concerned. In this way individual dealers on the Winnipeg Grain Exchange, for a nominal charge, are relieved from making individual settlement between themselves. Likewise all trades, by virtue of the Clearing Association taking the position of buyer to the seller and seller to the buyer, are "rung out" in an organized way, or cleared. A record of all trades is furnished the Clearing Association by each member, and settlement for the day's trading is made by writing a single cheque, either in favor of the Clearing Association by the member, or by the Clearing Association in favor of the member.

"In clearing futures trades, therefore, the Clearing Association is of value in the following respects:—

"(a) For the convenience it serves in facilitating the handling of the immense volume of transactions of the Grain Exchange.

"(b) In relieving the members from the task (previously often imperfectly performed with resulting loss) of depositing margins between themselves in the cumbersome forms formerly used."

They used when they made contracts between themselves, before the advent of the Association, they could call for each member to put up ten or twenty cents a bushel in a bank agreed upon by themselves, and they both had a certificate of deposit in such bank to secure this contract. It was a cumbersome way, and the member not knowing—for instance, he was taking the responsibility of selling to another member and he did not know how many of those contracts the other member might have with other members in the Exchange, and often resulted in loss and neglect of making the call, with the result that they did not know very well where they were at. And they fortunately called upon me, and sent me down to other exchanges that had in operation clearing houses, and I came back and evolved this plan.

"(c) In guaranteeing the fulfilment of each contract in respect of which it becomes the buyer to the seller and the seller to the buyer so far as its members are concerned."

That is to say, we are responsible when a man puts in a trade, and he makes a contract for the purchase of a million bushels of wheat in May, when it comes around to May we are responsible for the fulfilment of that contract, not the member. The member is responsible to us, of course, but we are responsible to the purchaser for the fulfilment of it.

By Mr. Commissioner Brown:

Q.—You suffer the loss if the member does not make good, or can't be made to come through? A.—Yes. Likewise, we protect the seller, we know when a man sells, and it is cleared, he is perfectly sure to get his money when he makes delivery.

By the Chairman:

Q.—You are the universal guarantor? A.—Yes. "It is incumbent upon the Clearing Association to know the reliability of the members whose business it accepts, and all members are required to furnish the manager with a statement of their assets and liabilities. By the very nature of the operations of the Clearing Association, in which it takes the position of buyer to the seller and seller to the buyer, it must closely scrutinize the financial and moral responsibility of the parties whose trades it accepts.

The Association guarantees the fulfilment of all trades which are accepted by it and actual delivery is properly made of the grain required for the fulfilment of all contracts on their delivery date. Thus, through the Clearing Association there is secured to the grain trade at Winnipeg:

(1) A close scrutiny of its personnel who are members of the Association.

(2) An efficient, economical and safe method of keeping all futures contracts cleared to the market daily.

(3) A guarantee of the safe holding and proper delivery in all transactions in futures trades."

As I said before, the Association guarantees the fulfilment, and consequently it has to be careful of the financial standing and of the integrity of the members who compose the Association.

By the Chairman:

Q.—Does it conduct that inquiry only on a member coming in, or does it look them over every now and again? A.—We have an annual statement, and as a matter of fact, I as manager, have authority at any time to examine the books of any member, and to call for a new financial statement at any time I want it.

Q.—What proportion of members has over this long period fallen below your standard? A.—We have only had two defaults that have cost the Clearing House any money since we started, and they were not serious. One cost us about $32,000, I think, and the other about $26,000, but that was afterwards paid, and refunded to us. We really only have had one loss.

Q.—I wasn't thinking so much of the losses or defaults because that would be inversely related to the strictness of your prior examination? A.—Exactly.

Q.—But how many people have fallen from grace without going into defaults? A.—I couldn't say offhand, but not a very large percentage.

Q.—Five percent? A.—I wouldn't think so, no.

Q.—Perhaps the knowledge that you were looking on kept them right? A.—Well, we keep very close track of commitments, and the open lines, and call for margins whenever we think there is the least danger, and I think it is a benefit to the members as well as a benefit to the Association, because he realizes what he is up against.

By Mr. Commissioner Evans:

Q.—You call for margins at times oftener than once a day? A.—Oh, I have called three times in a day.

By Mr. Pitblado:

Q.—First of all, you do call everybody to the market every day? A.—Oh, yes, they have to put up a cheque in every day to the market.

Q.—And at the close of the market that has to come in at what time? A.—Up to 2 o'clock on regular days.

Q.—Your market closes when? A.—1.15.

Q.—So they have got three-quarters of an hour to come through with the cash margin for the market of the day, that is correct? A.—Well, it is 2.15 really.

Q.—They have got an hour then? A.—Yes.

Q.—You rigidly enforce that? A.—Well, no, we fine them if we do not get it in.

Q.—You rigidly enforce the keeping up of those margins? A.—Oh, yes.

Q.—And a company is fined if they are even late beyond the hour? A.—Yes.

Q.—And that is your practice in this Clearing House? A.—Always.

Q.—So everyone that belongs knows these margins will be called right to the market? A.—Yes.

Q.—But then as you have said to Mr. Evans, you do call at times in between? A.—Yes, if we have an excited market, and it advances two or three cents, we make what we call a call to the market, that is if it goes up we call shorts to the market three cents, and variations of two or three cents we call during the market, as I said before we would make three calls in a day.

By the Chairman:

Q.—Does that act as a moderating influence on excitement? A.—It doesn't seem to make a bit of difference. It is an added security to the Clearing House. They take credit for it in their closing price, and it does not mean anything to them except that I have got it instead of them, that is all.

By Mr. Pitblado:

Q.—At any rate, that is your practice? A.—Yes.

Q.—Now, Mr. Fowler, have you some other matters that you wanted to talk on, that you did not write out? You said you had some notes you wanted to speak about? A.—Yes. I have very distinct ideas about the open market, and I always have had in the handling of grain. I remember in 1899 and 1900 I was farming then, and the Sinclair Commission was the first Commission that ever came through the West for the purpose of finding out. There were complaints about the elevator handlings, and about the mixing of grades and mixing of grain, and this Commission was appointed and sent through

the West to get evidence, and I remember going before that Commission when I was a farmer, and the only recollection I have of it now was that they were discussing mixing of grades and I remember taking the position that I did not care what mixing they did so long as the inspection did its work. I said that the Inspection Department was responsible, and that a man could mix in any shape or form that he wanted to, and as a farmer my idea was that the breadth and the capacity and everything that could be done to give the opportunity of free trade, and free handling of grain, should be done. Competition of every kind should be permitted to come in. Afterwards I got into the elevator business, got in that with some others, with a few elevators on the old Northern Pacific railroad. I had my money invested in the building of the elevators, and had leased them to another party to operate. It wasn't a very successful venture, and I finally sold out my interest in it. But my recollection of that time was that the difficulty the grain trader had, and the grain dealer, was in protecting his purchases in the country.

It always struck me that somebody had to take an enormous risk. I know I have hauled wheat to Brandon twenty-four miles from my farm, and I know that I wasn't getting any more than within ten cents a bushel of what it looked like the world's price would warrant, but these men had to take their grain, carry it at their own risk, and as a matter of fact we, as farmers, "beefed" like bay steers, as the saying is, but what could we do There it was. Finally, the business got into the hands of people who could do some hedging in Chicago, and they were able to pay for a while, and did pay closer margins and closer prices to the value as we could ascertain it in those days.

By the Chairman:

Q.—And the farmer was getting a better price by the efforts of those people who developed hedging in Chicago? A.—Yes. Then the hedging in Chicago—where they could not, as I said in my previous statement, where they could not make delivery, those gentlemen down there discovered here was a siuation that might be a little awkward for them, and when they came to buy in their hedges they got sometimes cramped a bit and lost money, and as a matter of fact, that was the main reason for them organizing the futures market in Winnipeg, because they could not get out of Chicago when they wanted to, at what they thought was a fair basis on the price that they had sold their wheat, and there wasn't enough of the business done on the basis of Chicago price with security to them, and they figured that they should have a market where they could deliver.

Q.—Do I understand they were Canadians? A.—Yes.

Q.—Not Americans? A.—No, it was Canadian grain men that were in the business in the country at the time. Then, of course, the futures market was started when I said so, and it was slow growth because there wasn't a very great volume in those days. I watched it there year by year increasing in volume and increasing in importance, and consequently increasing in service to the country, and I was very proud, and I am proud of the growth of that market, because I am firmly convinced that the international character that it has assumed and grown into is of the greatest service to the people of Canada. To my mind, there is not any two methods of doing business in grain. The open market is the only method in which you can handle grain, and handle it economically, handle it efficiently, and give the best results to the producer. I am just as firmly convinced of that.

My contention has always been that you can't select any man, or any set of men, whose judgment is equal to the judgment of the whole world registered every second during open market hours. I do not believe you can, I do not think it is possible. That is what we get with an open market, and a large volume of business and a large interest in it. Our market developed until we had people interested in it all over the world. I remember one of the men on he floor one morning showing me a telegram that he had from Japan, hedging 100,000 bushels of wheat, that the miller had bought in Japan, a number of years ago,—I was proud of it, because I thought here is direct evidence of the international character of the business. My contention is that the minute you get the reflection of the world's opinion of wheat in the market you can deal directly with, you have got the best price you can get anywhere in the world. You have got the efficiency in handling and forwarding. I have never heard any complaint of the machinery for forwarding wheat from the producer to the consumer.

The only complaints that we ever have, I may say speaking of the grain business itself, is that there are a great number of people connected with the trade who do and perform services in that trade in broadening and developing it, and the farmers generally have an idea that these are unnecessary adjuncts to the trade. I do not concede that at all, because it is conceded by every one that hedging is necessary as some form of insurance. I do not believe you can get any other form of insurance as cheaply as you can with the open market, and that it is the best and cheapest form that you can provide that insurance with. Consequently, as I say, I have always been proud of the market and convinced that it is the most efficient, and that the open market is the only way and most efficient way of handling the grain.

MR. PITBLADO—I was prepared with Mr. Fowler to put in some figures from the Clearing House if the Commission wants them. I don't know how valuable they would be.

THE CHAIRMAN—What figures will they be?

MR. PITBLADO—Figures, take for instance last year, open trades at the end of each day, and the visible grain in the country.

MR. COMMISSIONER BROWN—I think we asked for that, covering a period of five years.

MR. PITBLADO—We couldn't get it for five years, as Mr. Fowler's statement is a general statement.

THE CHAIRMAN—Before we get to that, do you wish to ask him any questions on this general statement?

MR. PITBLADO—No, I want to see if he is through with it. Are these all the points you want to discuss?

THE WITNESS—Yes.

By Mr. Commissioner Evans:

Q.—You suggested a plan of organization of this Exchange or your Clearing Association, after studying other Exchanges? A.—Yes.

Q.—Did you exactly copy others? A.—No, I took the form and their methods, and found while there was a certain similarity in them all they had different details, and I took what I thought were the best details, and formed them into the details for handling the office here.

MR. COMMISSIONER EVANS—Have you made many changes since the beginning? A.—Only minor ones. We increased it at one time to invoice clearing. By that I mean we took all the deliveries and cleared them through my office and issued cheques in payment for them, but we do not do that now.

Q.—Some of the other exchanges some years ago did not have the regulations with respect to margins that you have now? A.—They differ a bit. They all required the payment to be made at the close of the market. They were all based on the clearing trades at the closing price each day, but they followed in the method of securing the fulfilment of the contracts the same way. I made a distinct departure in that of recommending to the directors that we take financial statements and give the man a line of credit to which he can carry open commitments based on his financial standing. There was some opposition to it among the members but it was generally agreed to and after all these years of operations I do not think they would want to change it. The only fault with that method is that it is a one man job, responsibility is all on the manager.

Q.—You mean you might on the strength of the financial standing of one of your members allow him to carry an open account of 500,000? A.—5,000,000.

Q.—He would, however, every day have to margin that? A.—Yes.

Q.—But you would not allow him to exceed that 5,000,000 without some security? A.—Without some additional original margin, varying according to the character of the market at the time, five, ten or fifteen cents a bushel.

Q.—That is you do exercise a restricting, regulating influence on the size of trade according to the financial responsibility of the individual? A.—We have that influence in that way that he has to satisfy us with margins if he goes above his line, where we have big lines, the additional advantage of being able to ask for a statement if we feel nervous about it.

Q.—Beyond that point you really are not directly concerned with the trade of the member? A.—Oh, no.

Q.—Just on that basis of financial security? A.—I would like to say there that we sometimes ask, at least I have at different times, not very often, inquired into the nature of the business that the member has been doing, if his lines show something out of the usual.

THE CHAIRMAN—By the nature of the business you mean where it emanates from? A.—Yes.

MR. COMMISSIONER EVANS—You consider yourself free to do that? A.—Oh, yes, all members understand that, that their books and everything else are open to my inspection at any time I want them.

Q.—We have heard a good deal of the number of transactions that may take place in the Clearing House in respect to say one single hedge. I do not know whether you were in the room this morning when I was asking Mr. Reid about the spread of hedge, say from October to May, September or December to May, when that transaction would be put through the broker on the understanding that the broker give up his name so as not to disclose the name of the original, you would get altogether four transactions entered in your books in respect to that one transaction on merely transferring a hedge from one month to the other? A.—Well, we would get two purchases and two sales.

Q.—In each case there would be a corresponding sale or purchase? A.—Yes.

Q.—So I was just wondering, you were saying something about the transactions, it may not have been in what you said, but in the total transactions in your books that one transfer would be given four times its actual volume? A.—No, twice.

Q.—Twice its actual volume? A.—Yes.

Q.—But you have a hedge upon it perhaps some weeks prior to this spread? A.—Yes.

Q.—On the one quantity of wheat? A.—Yes. I am only speaking of the switch now, the original.

Q.—But if he did it through a broker? A.—I am not counting the original hedge, I am just counting the switch.

Q.—Would you not have four if that switch was put through a broker? A.—You would have two sales and two purchases.

Q.—Yes, two sales and two purchases, that is four. A.—Well, we only count it as two.

Q.—Would that be right? A.—That is all. In the figures I submit there is only the buying end of it or the selling end of it. We do iot double them and call that volume, we call it buying or selling volume.

Q.—What I had in mind, I may have got a wrong impression from what was said, supposing you should spread from October to December there would be one transaction. to buy in the outstanding October? A.—Yes.

Q.—And some one would have hedged that if it was bought in? There is one transaction? A.—Yes.

Q.—And then there would be the sale of the December? A.—Yes.

Q.—And some one would buy? A.—Yes.

Q.—Both those would go on in the name of the broker? A.—Yes. It was putting the transaction through in his name.

Q.—Then there would be a transfer, wouldn't there be in each case, back to the elevator company which had instructed that broker to make the original transaction? A.—Yes.

Q.—And the slip would be handed in to you? A.—It would come in the regular clearing.

Q.—Wouldn't that double two transactions and make four in your books? Wouldn't you add those all up? A.—Where do you get the two? You mean in the two different months?

Q.—Yes. A.—Yes, you would have four for the two different months, counting the two in each month.

Q.—You would have the volume of four added to your total volume of transactions, although only what had taken place was the transferring of the original piece of business to some other month? A.—Yes

MR. COMMISSIONER BROWN—In the total volume for the year? A.—Yes I thought you were dealing with the one month.

THE CHAIRMAN—That is the relation between the actual physical wheat and of the various rolls of figures that one gets in relation to that during its history? A.—I prepared a statement for you along the lines of that and I thought it might be of some use.

MR. COMMISSIONER BROWN—You keep a record, do you not, Mr. Fowler, of the total transactions that pass through the Clearing House? A.—We keep them for a certain length of time. I understood that you wanted that record from the commencement and I did not have it.

Q.—I am sorry, I do not think I said that. I certainly did not intend to put you to that much work. What I was hoping was that we might get a record back at the start, in 1904 say, and then get the last five years to indicate the picture of growth. A.—The only thing we have got is the price. We have the price record right from the start.

Q.—On the volume of trade? A.—We haven't got it, only from 1910.

Q.—You have got it from 1910? A.—Yes.

Q.—In the figures you are giving you have that ground covered? A.—I have that separately.

Q.—I wanted to get a picture of the last five years. I thought that would be sufficient. A.—I have made really two statements.

MR. COMMISSIONER EVANS—There is one question I would like to ask you. Have you had any experience of trouble between members or injustice, or unfair transactions between members? The point in my mind is this, we had yesterday the expression "abuses" used with respect to another exchange. It would strike me if there were things that were unfair the primary victim would be some other member of the Exchange and they might ultimately, of course, have an effect on the price to the outside world, but if there were any unfair or undesirable practices that in every case some member taking the other side of the transaction would be the sufferer. Have you had complaints of the working of this system as it works out in Winnipeg? A.—I do not quite understand what you mean by "abuses."

Q.—That word was used yesterday and I was trying to find out——

MR. PITBLADO—Mr. Fowler was not here.

A.—Unless I had some idea what the abuses were?

MR. COMMISSIONER EVANS—It was Professor Boyle when being questioned about the Chicago Exchange and about that committee of the Exchange itself which has been supervising to a certain extent the transactions there made use of the expression that in that way thy had removed or corrected something and he used the word "abuses". A.—I presume what he had reference to is the speculative "abuses".

Q.—Then I was just wondering if you could give us any information as to whether any similar condition had ever existed or does exist in Winnipeg, because if there were little squeezes which he referred to or anything of that kind some member would be the first to suffer, whatever might be the ultimate effect? A.—I can safely say—I have been

twenty-seven years there—that I have never seen anything when it was examined, any "abuses" along the line of that Duvel report in our market. I have never seen or had any, not even an indication of systematic short selling. I have seen what I thought, and have examined the accounts of members for what looked like a little too active buying, but in every instance, and there were not many, I will admit that in the long end of the spread between here and Chicago, I have never seen any substantial short selling here, except, for instance, if the Alberta Pacific, using the name just off hand, a big line, 350 elevators at the time—I am not speaking before they were amalgamated—if they had a line of two or three or four million bushels of short wheat, I have not worried about that, because I figured that was a normal thing to have in their fall business, and I never saw any substantial short lines of wheat in all my twenty-seven years' experience. We had, one time away back in 1908, one arbitration on a default from a man who in July had wheat he could not deliver. It only amounted to some 60,000 bushels, I think, and I don't think it was because he could not deliver it, but he got stubborn and would not. The price was abnormally high and he got stubborn and he put it into arbitration and it was settled by the Board of Arbitration. Outside of that and one small commitment of barley that they could not get, which amounted to only something like 200,000 bushels, I think, and it was adjusted among themselves after the delivery day, so that really was not a default there, there was no arbitration.

By Mr. Commissioner Evans:

Q.—You had kept close watch of the accounts and if you saw anything that appeared to you to be an extraordinary movement, you would ask for an explanation or look at the books, if that were possibly likely to endanger the financial position in respect to that? A.—Only in that case. I don't pose as being altruistic in it at all. It would be for the purpose of securing the Clearing House or price, if I made any examination.

Q.—Have you ever seen anything that might be called a squeeze or corner in the Winnipeg market since you have been there; if we except the year 1917, when the wheat Export Company cornered both Canada and the United States? A.—I don't think so. I think I can safely say that we have never had anything except that one instance and that was a case of putting the hedges for the low grades into the market that they could not be delivered at, and then suddenly the Wheat Export Board changed the spreads, you see, that they would buy the low grade on and gave a whole lot of dissatisfaction, but it was all adjusted amicably afterwards.

By Mr. Commissioner Brown:

Q.—You would have no record, Mr. Fowler, of what the speculative trade consisted of, how much was wheat, and how much was purely speculative? A.—You mean in our books?

Q.—Yes. A.—Oh, no. The only way would be if I happened to go and ask one of the members. That is the only way I would know. You would have nothing to do, as a matter of fact, with whether or not the large speculator was trading heavily, either short or long, so long as his margin was right or so long as your security was right? A.—Up to a certain limit, to which he could go before he would excite my attention.

Q.—It would not be your business to discipline him if he were endeavoring to depress the market? A.—Well, we have a limit set by the directors over which we won't allow any member to go in his open lines. It doesn't matter how much money he is worth, he may be worth millions and all that sort of thing, but over that we exact the original margin.

Q.—Do you wish to tell us what that limit would be? A.—I have no objections. It is seven million bushels, based on wheat.

Q.—Open lines? A.—Yes.

Q.—Could this man of wealth we have in our mind, could he trade in other names? Would you know in such a case? A.—I could not tell.

Q.—So he might be putting through larger deals than seven millions and you would not know it? A.—Yes, that would be possible, too.

By the Chairman:

Q.—Would it be right to say that if there are any people who are participating—I won't say abusing—who are making an excessive or unbalanced use of your facilities, causing, we will say, avoidable movements in the price to the disadvantage of farmers or amateurs, that somebody would gain out of that and somebody would be hurt by it? I am not asking you if it is, but as a matter of fact, if that kind of thing were happening, somebody would be the sufferer? A.—Yes, unless a member happened to be acting for a client.

Q.—He is either suffering in his own person, or suffering for his client? A.—Yes.

Q.—He would be either conscious of it, or unconscious of it? A.—Well, I think he would be conscious every time he put up the money.

Q.—If he is conscious, it would be quite possible for him to be articulate before this Commission? If those facts are existing, some parties suffered who could come to us and tell us all about it? A.—I would think so.

Q.—The only reason they would not come would be that it is either a very difficult thing to substantiate, or they are suffering from constitutional shyness? A.—It might be a little of both, but I think the real reason would be, it would be difficult to establish.

I don't see, myself—I don't know, they claim to have discovered it in Chicago, but for the life of me I cannot see how they could ever discover it here.

Q.—Would you suggest that I would be right in assuming as an impartial outsider that if nobody comes forward and makes even a hint that this kind of thing is happening, that it does not in fact exist? A.—I think it would be a very fair assumption. I am at a loss to understand what they mean altogether and yet I have not any doubt that the immense volume of trade is what impresses them with that idea; and yet I am so convinced that the volume is the value of the market, next to the reputation of our grain in the world. Next to that I think the volume of trade in the open market is of the most value of anything we have got.

Q.—You see, I am always reluctant to draw a positive conclusion from a negative situation. What I mean is this: One finds this, there is a state of affairs existing, people feel it in their bones that it exists, but they cannot give you chapter and verse for it, either because they are shy, or they may be afterwards victimized, or perhaps a dozen other reasons, and it might be improper to say that the original general charges or statements were wholly incorrect, simply because nobody came forward. Now I ask you if there is any reason why these people who would suffer, themselves or their clients, unless they are too shy, or lacking in ability, should not come forward and tell? A.—I cannot see any reason why they would not come forward.

Q.—They could come to you and grumble quick enought, could they not? A.—I would think so.

Q.—And you have not had them, in fact, grumble? A.—No, I have never had them. We have had some lawsuits in this country between clients and commission men, but I don't think that anybody would credit any of that class of difficulty to abuse of the market. It was simply some misunderstanding in an order, or some misunderstanding about the condition, or the fellow lost the money and did not want to pay it.

Q.—This thing has grown up with you and one feels you must have conducted its procedure with such wisdom, and your presence and personality might keep many a situation quiet. Supposing you were not there and there was a business conduct committee set up in your organization—— A.—I think we have one, haven't we?

Q.—You think you have. Do they ever meet? A.—I am speaking of the Exchange now. Of course, there would not be any occasion for it in my office or in the Clearing House, but I think the Exchange has its business conduct committee.

MR. PITBLADO—We don't call it by that name, but it is pretty much the same.

THE CHAIRMAN—Something more euphonistic?

MR. COMMISSIONER BROWN—Discipline committee?

MR. PITBLADO—No, not discipline committee.

By the Chairman:

Q.—I assume from the position you hold that you are always closely in touch with what is going on and you may not find it necessary to have some committee or some other body to help you? A.—Well, of course, I don't claim to be any Solomon in that way. The only force I have got is the command that I have got on the price for security. I think that is the real reason for our lack of trouble and a whole lot of other things. It is a real transaction the minute a man puts his money in it and, consequently, when he has to put up more, he begins to consider whether it is worth while or not.

Q.—Anyway, if you were in my place, you might infer from the lack of specific complaint that there was nothing to complain about? A.—I think I would.

Q.—Going back to the beginning of your experience, when you were looking around to set this organization up, were you impressed at all, did it come before you that where a complete systematic market for hedging operations existed, that it was better for trade and for the farmer? A.—Oh, yes.

Q.—That was your general impression? A.—Yes. I visited Chicago at the same time and the only reason I didn't stay there longer and look into it more fully was that they did not have a Clearing House. They had settling clerks who did the settling outside amongst themselves and they did not have a Clearing House. Consequently, I could not get any information from them except in a general way.

Q.—Would you tell us whether you think the setting up of the futures market in Winnipeg increased fairly steadily the total quantity of wheat trading that was put through as hedging operations? A.—Oh, yes.

Q.—The facility that was afforded was rapidly taken advantage of? A.—Oh, yes. It progressed steadily from, I think—well, the figures will show that it progressed steadily, depending, of course, on the quantity of the crop and the price. All that had a lot to do with the business done in our office. The business done in our office depends on the crop and the price. I don't know whether we will continue to grow or not, but we have up to the present kept growing.

Q.—Would you say that the facilities were such that they not only made existing business more convenient, but that they actually affected the total volume of wheat production in Canada? A.—Oh, I don't think I would like to claim that we did that.

Q.—Surely, if it had the effect of giving the farmer a better price for his produce, it stimulates the total production activity? A.—It enables him to get more of the value of

his wheat. After all, we don't make the price here. We reflect the world's opinion of the value, but we don't make the price here.

Q.—By giving a better deal, a better price, doesn't it mean that his acreage was at least sustained, if not improved? A.—You can never make him believe.

Q.—I am not asking what he believes; I am asking what you believe. A.—Really, I would have to say that I doubt very much if it made much difference to the production.

Q.—That is the answer I wanted, to see what you thought. You wouldn't say that the total volume of Canadian wheat was greater because of the futures market? A.—The total production was greater? No, personally I would not. I think we have got the soil, and we have the land, and we have the people who want to work it, and that was largely the reason for the increased production.

Q.—So actually the farmer is not tremendously moved in his total production by the exact price he gets? A.—Oh, yes, he is. Oh, I should say so; but the saving that he would make in handling the grain efficiently is small compared to what he would make if the world's price was ten cents a bushel higher.

Q.—Oh, yes, I agree that you have got to start off from the fact that there is a moveable price so far as he is concerned; with your futures system he is getting more than he would otherwise get? A.—I am perfectly certain he is.

Q.—That either must attract more people into farming or make him farm to a greater extent? A.—It might; it might have that tendency. This is a new country, and up to now I don't think that it has had much bearing.

Q.—I am rather interested in the elasticity of the supply, farming supply according to price, and your evidence rather goes to show that it is not very elastic, that is, that you do not get a much larger supply in farming merely by the improved profits of the farmer? A.—Well, just to illustrate that, I would like to say this, that take our farmers in the West, we haven't had as low prices; I don't think we ever had as low prices; when I was farming I hauled wheat to Brandon and sold at 38 cents a bushel; that was at Brandon, you see. We have had periods of eighty cent wheat and seventy-five cent wheat and so on in Winnipeg at Fort William price. During all these periods the farmer kept on producing; he couldn't do anything else; the land was there, virgin soil, and what else was he to do? Then we come to a period during the war where prices were high and production was stimulated abnormally and everybody was urged to produce wheat. This land is all there yet, and in fact has been added to every year since then, because prices have been very good. We come to this period now of low prices, and I can visualize, having been a farmer myself, the predicament that the farmer is in. What is he going to do with that land? There will be some decrease, but nothing substantial, I don't think, in the acreage sown. There may be a big decrease in the crop, but I don't think there will be much decrease in the acreage sown, because what in the world is the farmer going to do?

Q.—I think your evidence really agrees exactly with Professor Clarke's yesterday morning, that the farmer is probably much quicker to increase his acreage than restrict it. He is more willing to increase than decrease? A.—Always.

Q.—Then my original question to you remains, that if the hedging system has enabled the farmer to get generally higher prices, it has probably produced some increase in the total farming done? A.—It may have. I never looked at it in that way, I confess.

Q.—But otherwise farming would have become such a profitable trade that people would be deserting other trades to go into it? A.—I have not noticed any particular rush that way for a good many years. I am quite free to confess that my sympathies are all with the farmer. He has got the worst end of the stick all the time. He lives out, isolated on his farm, works hard, and I see that we are going now to trade five days' work for seven days' work with the farmer and expect him to stay on the land. I don't think he will.

Q.—You told us that there were occasions when large lines were run you had reason to look at the accounts in the books. A.—Very rare, though, not very often.

Q.—Would that happen when there is a considerable bull market running and things are booming you would get some rather large open lines? A.—Well, it would largely spread over a period of a month or two, and my reasons generally were just to wonder, you see, if they were not getting a little more wheat than they ought to have, and every time that I went I found that it was a case of spread.

Q.—You did not become particularly active in this particular regard on a bull market? A.—Oh, no.

Q.—I was wanting to see whether your examination of the situation of the accounts revealed the nature of the people who were coming into the market. A.—Only just where I might be asked a special question. For instance, I had a request from the Government at Ottawa to find out if there was any hedging of Russian wheat here. Well, I went to all the members that I knew had accounts in New York and Chicago and did business for people in the Old Country and asked them, and had them wire their principals and get replies from them all. Now it would be something that would direct my attention to it and I would go and ask them what this meant; but I have only done it a few times.

Q.—You have no general theory as to how a strong bull market is made up of new people on either side? A.—Well, I have; I have a pretty good idea that some people are

trying to forecast and anticipate a rise in wheat, a condition that would probably have come from conditions in the world, and their continued buying affects the market, and then if one man knows everybody gets it by and by, and they come in from all over the world and buy wheat, and of course they overdo it.

Q.—Do you know who the bears are then? A.—Well, I fancy that the bears will be numberless people who will sell them wheat. I do not know, mind you, I am only guessing at this; but I can quite imagine a man in Liverpool having 100,000 bushels of wheat bought for milling purposes, and cannot get the price for the flour equivalent to the price of the wheat, he would turn around and sell the wheat.

Q.—He is a new bear, isn't he? A.—I am told it has often been done. And then I have seen people change their position in the market two or three times a day, and just on the information they get, or on instructions from their clients and so forth. You never can tell what the reason is behind it, except in a general way that they hope to better their financial position by making some money out of it.

Q.—Have you anything to add about the privilege market options? A.—No.

Q.—Have you any views about it? A.—No.

Q.—Is it a good thing? A.—Well, it is a good thing in this way that it helps to broaden the market and steady it.

Q.—Is it an active agent in creating a gambling situation? A.—Oh, I don't know.

Q.—You don't think so? A.—I don't know anything about the privilege market because I never have anything to do with it.

Q.—It doesn't create any abuses that you think are outside your field? A.—It doesn't get to me, because it comes in the form of trade when it comes into my place and there is somebody always responsible for their trade in their name.

Q.—When the trades reach you they are quite wholesome? A.—They are all right.

MR. PITBLADO—I don't know, Mr. Fowler—some of the others started to mention some of these things that made up greater volume; I don't know whether the Commission want to discuss some of the others. You have heard them; there are spreaders——

WITNESS—Spreaders and scalpers and changing lines, and all that sort of thing.

THE CHAIRMAN—Shall we have the statement put in without any further discussion about it?

MR. PITBLADO—Yes.

By Mr. Pitblado:

Q.—You have the statement, and you only have three copies of it? A.—Yes, this statement was made rather hurriedly. It is a hard statement to get out, but I thought it would be of interest to you.

THE CHAIRMAN—Thank you.

(Statement of Clearing House referred to, produced and marked Exhibit 20)

By the Chairman:

Q.—Do you regard this as a confidential document? A.—Yes, I do.

Q.—The document comes down to March 1931? A.—That is why I only made three copies.

By Mr. Pitblado:

Q.—Tell us what it shows? A.—I will tell you my reason for doing it. I noticed that the Commission made some mention about this subject, and I thought it would be of interest to the Commission to know what the actual position in the open lines was, and what they meant to the crop generally. I went back with this statement to May 1, 1929, and I have given you a daily statement of the open line, and the amount traded in, and the closing price for the day. Then every week I have given you the stock in the country elevators, in transit west of Fort William, and the stock in the terminals, and the totals.

Q.—That is what you mean by visible cash wheat? A.—The visible stock available for hedging. And we have the open line, and the visible available for hedging. I did this because my contention is that the trading has no effect on the market. That the real effect is the open line, that is the balance left of contracts outstanding that have to be filled by wheat. I thought that would be of interest to you. Then I put it in this form so that you could from day to day examine the prices, the variation in price, the variation in the lines, and the open lines compared with the wheat that is available to fill it, and you can look over that and if you find any information additional that you want I will be glad to give it to you. I wouldn't like it to be made public.

By the Chairman:

Q.—Quite right. We will study this and we may have some questions to ask you next Tuesday or Wednesday.

By Mr. Pitblado:

Q.—You will not disclose to any person the open lines that are on your books down there? A.—No.

Q.—And no one could go in to you and find out what my open line might be if I were trading, or anybody else's? A.—No.

Q.—And that has been secret with you ever since you opened it? A.—Yes.

Q.—So that the members of the Exchange dealing with you know that is secret in your hands? A.—Yes.

Q.—And that is the way you feel about that? A.—Yes.

By Mr. Commissioner Evans:

Q.—I understand, if we compare the volume traded in with the change in the open line at the end of the day, we get some measure of the amount of this switching or spreading which might mean four transactions to be completed, and the scalping and all these various activities, and amount in and amount out business which might be very large, but comparatively there is very small change in the net open at the end of the day? A.—My contention is that the open line is the only thing that would influence price, I mean to say locally, if you get what I mean. We could not have any local influence on the price here unless we had something to indicate it in the open line and the wheat available.

By the Chairman:

Q.—And the wheat available? A.—Yes.

Q.—The two together? A.—Yes.

Q.—I couldn't see how you could say the open line alone? A.—No, it is essentially the open line and the wheat available that must affect the market locally. The general trend of world's prices will affect the market outside of that.

By Mr. Commissioner Evans:

Q.—In this wheat available you have only Fort William and west? A.—These are all the terminals, because we have an awful lot of wheat hedged in the terminals in the east, and hedges standing out in our market here.

Q.—That is what I was going to bring out; I thought probably you had left out an important thing? A.—Oh, no.

THE CHAIRMAN—Thank you. It may be on examination of your statement we may ask some questions about it next week. A.—If you can think of anything else you would like I will be glad to get it.

THE CHAIRMAN—Can anyone tell me whether anybody is coming before us representing the producers from the Wheat Pool?

MR. PEARSON—Not that I know of.

(Commission adjourned until 2.30 p.m.)

MR. SWEATMAN—I notice that you have Sir Rodmond Roblin here and I thought we might have him before you.

SIR RODMOND ROBLIN (Called).

THE CHAIRMAN—Mr. Roblin, we won't bother you for long but you had such a long experience of the field we are trying to explore now that it is possible you might be able to help us with a little of its past history. We understand that an active futures market was established in Winnipeg at the beginning of 1904, although a good deal, of course, of futures and hedging was done for this market elsewhere. Now, you have had some experience of the grain business both before and after. Would it be possible for anybody in the trade, both before and after, to throw any light on our main question, that is the effect of the dealing in futures upon the price received by the producer, that is to say, is it possible for you from your knowledge of what happened before and after to say whether the new market was a benefit to the producer or the reverse? Any light you can throw, even if it is in the long historical past and you may perhaps have got a little shadowy, would be a very great help, because we find the greatest difficulty to get any witness who can look at the thing on both sides of that date.

MR. ROBLIN—Well, all I can give you is my experience.

THE CHAIRMAN—That is all we ask for.

MR. ROBLIN—I began in the grain business in 1882. I shipped the second car of wheat that was ever shipped out of Manitoba, all rail. I remained in the grain business, not actively the last few years, up to two years ago. Up to 1900 I was very active. There was no option market and practically no organization for the handling of grain at all. We did organize an Exchange and we had what we called a "Call Board" that would call a price once a day at the close of the market, or along about one or two o'clock in the afternoon. My experience possibly as the head of the Clearing House, as we called it at one time, would probably give you more information along the lines you require than anything else I can say. For a number of years—I haven't looked up the exact dates but I know that we closed in 1900, but for several years before that I was manager of what we called the Clearing House. That Clearing House handled the grain of all elevator grain buyers in Manitoba, firms like Sir Donald McMillan Brothers, Crowe & Company, Joseph Harris, Lowe & Train, Martin & Mitchell, Nicholas Bawlf, all who owned elevators, who lived in Winnipeg formed what we called a syndicate. They bought in the country, delivered their wheat to me and I exported it. I gave them a price that morning as to what the value of that wheat was or what they could pay for it, then I sold it as best I could in the markets of the world. I had agents in England at Avonmouth, Bristol, and Bannerman in Scotland, and Philipson & Boardman in London, as agents with whom I corresponded by cable every day. I kept myself well advised and had brokers in New York. I took the wheat direct from the farmers and delivered it to the con-

sumers in England. What you want to know, I suppose, is the price at which I bought from the farmer and whether it was based on what I sold it for. I had a flat price of ten cents a bushel from the farmer to the buyer in Europe on straight grades and fifteen cents a bushel on sample wheat. We had a board that made samples each year and these samples were certified to and went over to England. We had ten cents always from the farmer to the consumer, or rather to the purchaser in the Old Country, of course, deducting freight and other incidental charges.

Q.—The actual expenses and ten cents? A.—Yes. That continued until 1902 or 1903 till the futures market started. The moment the option market started we were closed out because the business was done on the basis of one or two cents or less a bushel profit and we organized into separate units and did not export. We discontinued the exporting.

Q.—What was previously costing ten cents only cost two or three cents? A.—Yes.

Q.—Who got the benefit of the difference? A.—Well, sometimes, I remember one cargo shipped to Avonmouth. I had ten cent profit and lost ten cents before I delivered my cargo, owing to depreciation in price, it was a sample cargo.

Q.—You bore all the risks? A.—We sold on cost, insurance and freight. We delivered in port. They would not buy here, they never did. We put it on board at New York or Newport. I got the ocean bill and sent it on and when the cargo arrived they would take up our draft. That continued up to the time the option market started. Then we found we could not export because the margin was too small. In the meantime a larger number of buyers came in from other places and built lines of elevators. The country was developed and business got large. The margin was small and it took a great deal of care and economy to hold the balance on the right side.

Q.—The ten cents you got was the amount you wanted to cover your risk in price in ordinary times? A.—We took that and in no one year did we ever make an unreasonable profit.

Q.—Sometimes you made a loss? A.—Yes, in 1892 we made a very heavy loss.

Q.—Is it your opinion that the system of options has enabled that risk to be carried more economically? A.—Well, it leaves the margin of profit, so far as my knowledge goes, always less than one and a half cents. No exporter that I know of ever expects to make more than a cent and a half. That does not include overhead, it is gross profit.

Q.—Would we be right in inferring from that, you think the farmer, after the option market, got a rather better price? A.—Certainly he did.

Q.—He did? A.—Absolutely as far as my knowledge goes, because there was not that ten cent margin that we asked, because our custom since the option market started was to hedge every morning what we bought the day before, just to ensure it. Some days it might have been half a cent off and we would be out half a cent on our assumed margin and next day it might be up half a cent and on the law of averages we would come out all right. It has been our custom for thirty or forty years to hedge every morning and we never carried any wheat. We never speculated. If any member of the firm wanted to speculate he must do it outside, he could not do it in the company.

Q.—Supposing instead of having been a grain dealer you had been a grain farmer, would you have regarded the market in futures as being beneficial? A.—I may tell you that I have been a farmer since and before I began grain buying. I bought my farm in 1881 and practically have it yet, and my experience in all that time has been to sell my grain as quickly as I could get it from the thresher to the elevator, or to the town where I could dispose of it. I have held it twice speculating and lost both times. I lost this year.

Q.—So your advice to the farmer would be to sell out quickly? A.—To sell as quickly as he can, that has been my experience. I do not say advice, my experience. I have that farm and since 1881 there never has been a year that I haven't made more per cent on the investment than I ever made on the investments in the elevator company.

Q.—Has your farm generally yielded you better profits since 1904 than it did before? A.—Well, yes. It is because there have been some exceptional years. Prior to 1900 to 1904 the price always ran around fifty or sixty cents. Of course, the cost of operating was very much lower than it is now, almost I might say half the expense, but we got large yields, forty and fifty bushels to the acre of No. 1 wheat every year practically, but my experience has been—sell the wheat as soon as you can get it to the market.

Q.—It would not be possible to do that without considerable risk unless there was a system of options? A.—Yes, if I were farming twenty miles away from a railway where it was impossible to deliver my grain from the elevator I would immediately put out an option after my crop was assured, after I knew that I was going to have a crop.

Q.—And what would be your simple answer to our main question: "What is the effect of dealing in futures upon the price received by the producer?" A.—In my opinion he gets a better price.

Q.—Does he get a price also less subject to fluctuation or more subject to fluctuation? A.—That is a difficult question to answer.

Q.—It is a difficult question? A.—Yes, it would vary under certain circumstances.

Q.—You do not feel so confident of that? A.—No, I would not.

THE CHAIRMAN—We thank you for your statement. It is an interesting experience.

MR. ROBLIN—It reminds me of the fact that I am no longer a young man.

THE CHAIRMAN—I would like to pay you nice compliments but the audience is too large.

W. L. PARRISH (called).

By Mr. Pitblado:

Q.—You are an old timer also in the grain business here, Mr. Parrish? A.—Yes, I commenced the same year as Sir Rodmond.

Q.—You are still in it? A.—Yes. I have a statement showing statistically the growth of grain grown and the sources from which the statistics are taken. It shows how in those early eighties the crop was so small.

Q.—As I understand it, in the early days, what you might call the eighties, the amount of business that you did was quite small? A.—Yes.

Q.—You were running in a small way? A.—Yes.

Q.—And as you came along into the nineties, the crop got bigger? A.—Yes.

Q.—This statement that you put in, showing the amount, is taken from the census of the total crop grown, and not the exported crop of grain, as you understand it? A.—Yes.

Q.—It includes the crop of feed and seed which would not be exported? A.—I don't think anything was exported before 1884.

Q.—Then, Mr. Parrish, to shorten up, you, I believe, had sôme elevators in the west and bought from the farmers? Yes.

Q.—To whom did you dispose of your grain? A.—We sold our grain mostly to the syndicate which Sir Rodmond represented in Winnipeg. We did not hedge any grain at all. It was all sold in Winnipeg.

Q.—You recollect the syndicate that Sir Rodmond spoke of? A.—Yes.

Q.—He mentioned a 10c spread. As I understood him to call it, to the farmer, and 15c if it were what I might call an off-grade? A.—Yes, doubtful grade.

Q.—What you called sample wheat? A.—Yes.

Q.—That is as you recollect it? A.—Well, we would get about 2c off that 10c for handling it through our elevators.

Q.—While that was the price to the farmers, you got 2c for handling that through your elevators? A.—Yes.

Q.—But there was that spread of about 8c or 13c between you and the producer himself? A.—Yes.

Q.—Since the beginning of the option market, will you say how the operations have been since 1904, as far as you yourself are concerned? A.—Much safer way of doing business.

Q.—What have you been doing—hedging? A.—Always.

Q.—Always hedged? A.—Yes.

Q.—Has it made any difference in your relation to the producer in connection with the purchase of grain? A.—We work on a very much closer margin.

Q.—That is, as between? A.—The old method of doing business and the present method.

Q.—What do you mean by closer margin? A.—We don't have to take the chances. We can always sell on the option, hedge our wheat every day.

Q.—And as a result how is the producer affected? A.—He gets a better price compared with the previous price.

Q.—And in answering the question as to what effect, if any, in your opinion, the dealing in grain futures has upon the price received by the producer, what would be your answer to that? A.—I say he is getting a better price.

By the Chairman:

Q.—You have been a farmer yourself during that period? A.—A grain dealer.

Q.—You have not been a farmer? A.—Yes, I took up a homestead in 1881.

Q.—And you, yourself, have experienced the difference between the two systems on your own wheat? A.—Well, I never made any money on the farm. I have to admit that.

Q.—Have you dealt with wheat under the two systems as vendor? A.—Well, my wheat raising was not very extensive.

By Mr. Commissioner Brown:

Q.—During what years were you farming, Mr. Parrish? A.—I took up a homestead in 1881 and I have had farms more or less ever since.

MR. PITBLADO—Mr. Parrish has a very fine dairy farm just outside the city and is operating that today.

By Mr. Commissioner Brown:

Q.—I mean grain farming. How long were you in the grain farming business? A.—I have always devoted my time to the grain business and the farming was a side issue.

Q.—Counsel has just referred to a very excellent dairy farm that you have. How long were you engaged in the grain farming business? A.—Not extensively at any time. This dairy farm, it is simply for feed, that is all.

Q.—You have not been a seller of wheat throughout that period? A.—No.

EXHIBIT No. 22

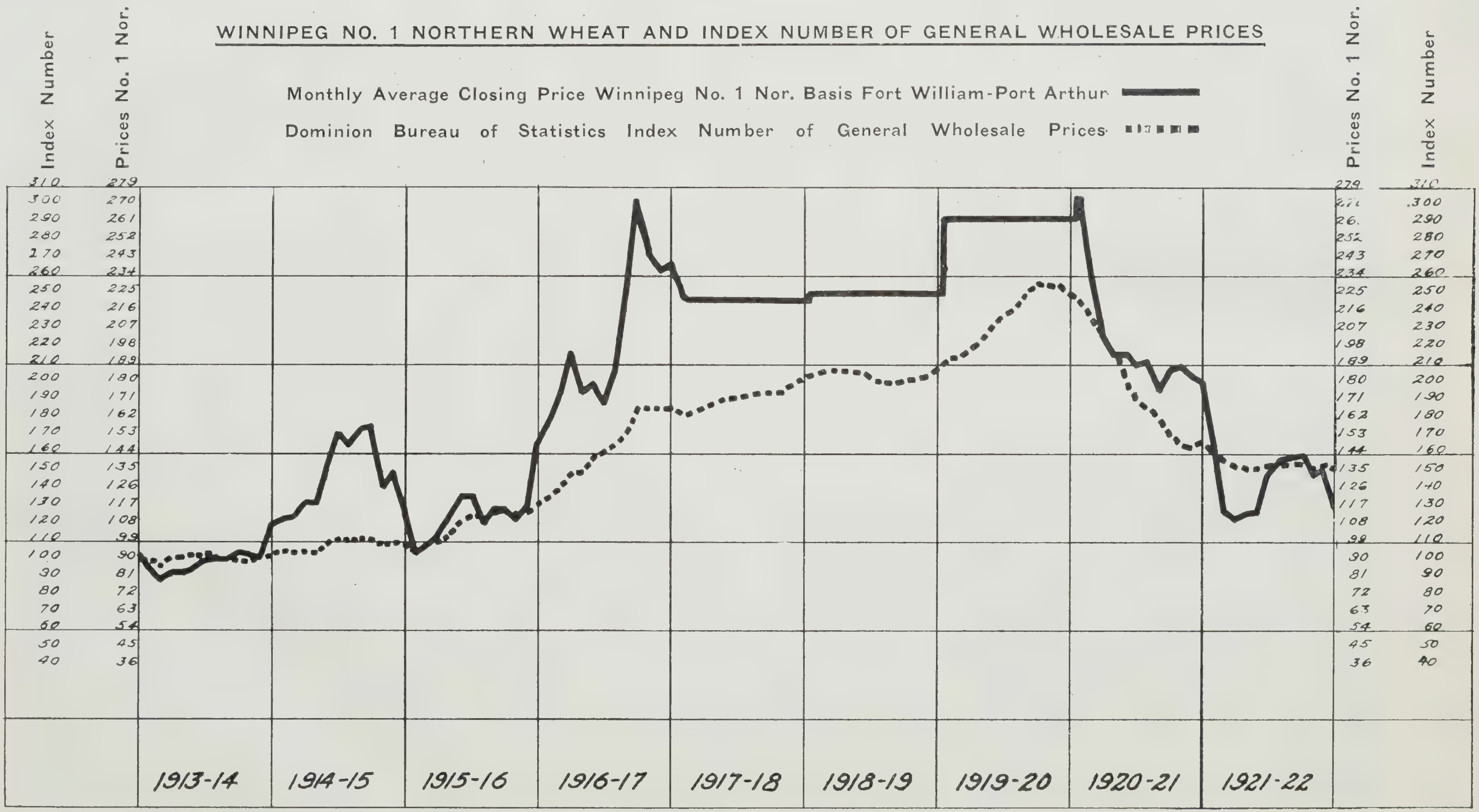
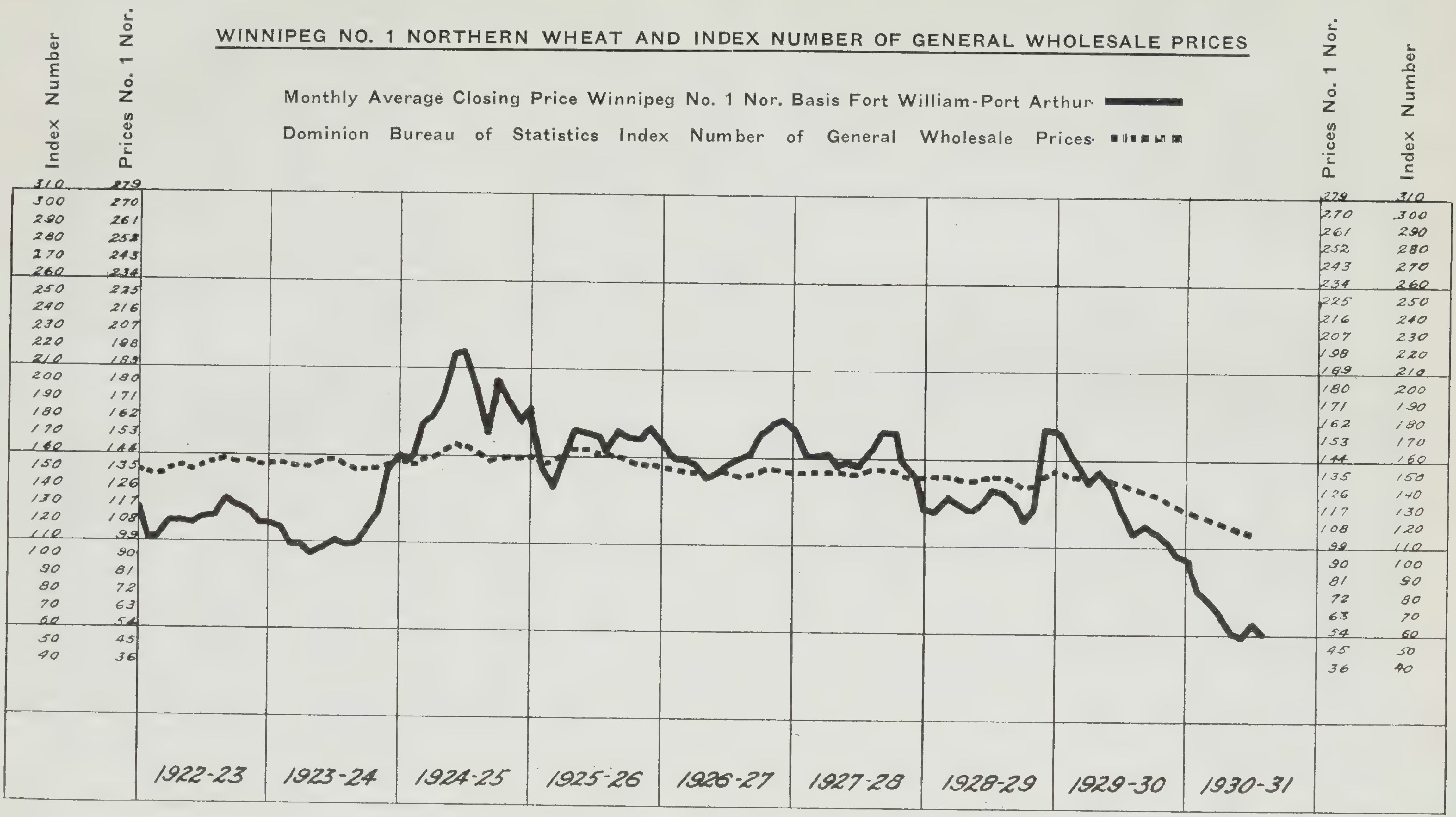


EXHIBIT No. 22

WINNIPEG NO. 1 NORTHERN WHEAT AND INDEX NUMBER OF GENERAL WHOLESALE PRICES

Monthly Average Closing Price Winnipeg No. 1 Nor. Basis Fort William-Port Arthur

Dominion Bureau of Statistics Index Number of General Wholesale Prices



MR. PITBLADO—I don't like to deluge you with charts, Mr. Chairman, but I have another chart here.

THE CHAIRMAN—They are very good diet. We don't mind.

MR. PITBLADO—I think they shorten the evidence, if they are properly made.

THE CHAIRMAN—Who is putting this in?

MR. PITBLADO—Well, I have the same accountant here who prepared them. They are statistics. I think perhaps, if you will let me explain it, you will see if you need to call him.

(Chart referred to marked Exhibit No. 22.)

MR. PITBLADO—No. I Northern Wheat. Index number of general wholesale prices, monthly average closing price in Winnipeg for No. 1 Northern, basis Fort William and Port Arthur, from 1914 to 1931. They start, one of them at 100, that is the index number of the general wholesale prices, and the other starts at 90, the price of No. 1 Northern in the year 1913, and they are then compared accurately according to the figures that are attached at the back.

THE CHAIRMAN—You start them at the same point and the values are comparable?

MR. PITBLADO—By virtue of one being 90 and the other 100.

THE CHAIRMAN—What influence has the wheat price in the general wholesale index? Is it one of a large number of commodities?

MR. COMMISSIONER EVANS—That could be looked up from the Dominion Bureau. It will show what factor it is. It is quite an important factor.

THE CHAIRMAN—But not a commanding one.

MR. COMMISSIONER EVANS—No.

MR. PITBLADO—The years 1917 to 1920 were you will recollect, years of controlled price of wheat, and that is shown on the face of it here.

MR. SWEATMAN—I have a statement we might put in here, a statement from the Board of Grain Commissioners, showing the handling of wheat at country elevators in the crop years 1925-26 to 1929-30, which shows the quantity of grain special binned. It is taken from the returns which are made to the Grain Commissioners.

THE CHAIRMAN—By special binned you mean put into separate bins?

MR. SWEATMAN—Yes, not mixed. It showed the maximum figure of grain that was not hedged.

THE CHAIRMAN—That was still being held by farmers at their own risk?

MR. SWEATMAN—Yes, I think so.

THE CHAIRMAN—That would be an indication of the figure.

MR. SWEATMAN—Yes. Take the first year, 38%; second year, 42%, and so on.

MR. COMMISSIONER BROWN—38% of what?

MR. SWEATMAN—The total grain handled.

MR. COMMMISSIONER BROWN—That was special binned?

MR. SWEATMAN—Yes, according to these figures.

THE CHAIRMAN—That seems a very high figure.

MR. SWEATMAN—It is signed by Mr. Ursell.

(Statement referred to marked Exhibit No. 23.)

MR. PITBLADO—The special binning ceases once it reaches the terminal. It is graded at Winnipeg and goes down to the terminals and is put in there in graded wheat. It is only specially binned in the country for the purpose of preserving the identity of the grain until such time as the grain is graded at Winnipeg and receives its output grade.

THE CHAIRMAN—Can it be inferred from the fact that it is special binned that it is still owned by the farmer? A.—It shows that it was owned by the farmer for a period of time until it got into the terminals, when it is sold they can't tell the length of time it was held. It may be sold as soon as graded but it shows for a time a large amount of the crop is held by the farmer unhedged.

MR. COMMISSIONER EVANS—Grain that is stored subject to grade and dockage is not included in this?

MR. SWEATMAN—No, in the other item there would be a considerable quantity of grain sold subject to grade and dockage, which also would be unhedged for a considerable length of time.

THE CHAIRMAN—I see that the figure for non-pool elevators is 36 in 1925, 28 in 1926, and 37 in 1928—it wants a lot of interpretation.

MR. SWEATMAN—I noticed that. Even the amount in special bin of the pool elevators seems a little larger than one might expect.

THE CHAIRMAN—I don't see that we can use Exhibit 23 very safely unless we have some further explanation.

GEORGE E. CATHCART (recalled.)

By Mr. Hoskin:

Q.—The Commissioners are interested, I understand, in hearing some evidence in connection with a class of dealing known as dealing in privileges. You are, I believe, familiar with that class of dealing in the Exchange? A.—Yes.

Q.—Can you just explain it to the Commission, what function it fulfils there and what assistance, if any, it is as far as the futures market is concerned. A.—Privileges have been traded in grain; they have been called puts and calls also indemnities. They are also called bids and offers. When you buy an offer you buy the privilege of buying wheat at a certain price next day regardless of where the market is. For instance, if the market closes at 62 cents, and privilege offers were 63, and the market went to 70 or 73 cents to-morrow, you would still be able to buy your wheat at 63. You have paid for that privilege.

By the Chairman:

Q.—What is the thing that would actuate a man in wanting to buy that privilege? A.—He might be short wheat and want to protect himself; he might be an exporter offering a great deal of grain overnight, and if he was offering 500,000 bushels of grain overnight he could buy offers on 100,000 or 200,000 bushels of wheat so that he would be protected on some of it anyway, for fear that all his grain would be accepted.

Q.—If the grain market were continuous throughout the night—which God forbid—you would not have any need for this? A.—No. Now puts are just the opposite, or bids, the man who is long wheat wants to know that he can sell that wheat at a certain price next day; he may be afraid possibly of rain overnight in the West, or that the Liverpool market may become very weak, so he will buy puts or bids to protect himself; also elevator men, especially over holidays will buy puts to protect themselves. They might not know how much wheat might be bought in the country overnight, and if they should get very heavy acceptances and the market was weak they might not be able to sell their wheat very close to the price at which the market closed the previous night.

Q.—Then you spoke about indemnities. What are they? A.—Just the same thing, just a different name, bids and offers, indemnities, puts and calls.

By the Chairman:

Q.—Are there any of those transactions ever for a longer period than over night? A.—Yes, some of them for a week, and some of them for next week.

Q.—Did you ever have anybody buying the privilege of option for several months? A.—Those are traded in very very occasionally, very few people want to buy them, and very few people want to sell them.

Q.—You never have anybody paying a price to have the right to buy also simultaneously? A.—I didn't catch that.

Q.—Do you ever have anybody paying a commission or price or fee to have the right to buy or sell from you at particular prices? A.—No, it would have to be a very narrow market because all our privileges cost $1.00 a thousand, and I understand in the Liverpool market there is some of that done, that is where you will pay possibly one cent a bushel, five or ten cents a bushel. For instance, if wheat was 63 cents you might pay ten cents a bushel for the right to buy that wheat from the seller at 63 cents (good until the end of May), but we don't do any of that kind of business here.

Q.—That is where I must have learned it. A.—They have more money over there than we have. The poor speculator in this market has not sufficient to pay ten cents a bushel.

Q.—I can't make any comment on that? A.—I know.

Q.—I might be biased. Will you tell us how that market originated, and when? A.—It is pretty hard to say when it originated—I have been in the grain business almost thirty-five years and I know it was going then, and I know that the head of the firm I was with in New York City in the export business voted against privileges at one time. And privileges for a time were discontinued on the New York Produce Exchange, but like a lot of laws, the Prohibition Law of the United States, a great many people do not believe in it, and a lot of laws not popular are very often broken so that very often he woud say to me, "I think you had better buy some calls tonight, we are offering a good bit of wheat, so we would buy some calls even though they were not officially recognized, and in fact forbidden.

Q.—Is this market organized in a systematic manner, with president, secretary, statistics, and regulations? A.—It is just part of the regular market. Fifteen minutes after the closing of the regular market trading in privileges commences and lasts for half an hour.

Q.—It is recognized with rules and regulations? A.—It has rules and regulations.

Q.—Is it under the Business Conduct Committee of the Grain Exchange? A.—They overlook that.

Q.—They have got oversight over that too? A.—Yes.

By Mr. Commissioner Brown:

Q.—And open to all traders? A.—Open to all traders.

By the Chairman:

Q.—It is just as systematic, a part of the whole system of futures as any other part? A.—Yes.

Q.—Is there a closing price for that? A.—Yes, closing price and opening price, a closing price every day. They run for half an hour.

Q.—If you get through that fifteen minutes without doing all you want to you are done for the night? A.—Half an hour.

Q.—You have no further chance? A.—No further chance.

Q.—No development of any further market on top of that? A.—No.

Q.—Has the introduction of radio prices made any difference to that market? A.—I should not say so. Radio prices from where?

Q.—I understand you do disseminate prices. There is more information now after hours than there used to be? A.—Oh, yes. No, it does not have any effect at all. There is so little information comes in during the last half hour after the market is closed. There might be something come in after the market closes which would make a man be an urgent buyer possibly of calls or puts as the case might be. There might be some news coming out in newspapers. For instance, if there was danger of war suddenly coming out in the paper after market closed, if I were short wheat I would want some calls or offers to protect myself.

Q.—But it has to come in the half hour? A.—Yes.

Q.—The only extended protection a man has for this period is up when the half hour is over. You haven't really made it continuous for him? A.—No.

Q.—An important piece of information coming after hours leaves a man defenceless? A.—Unless he is protected with his puts or calls, as the case may be.

Q.—What proportion of the total dealings of the day, left open at the end of the day are looked after in this fashion as against the next day? A.—That would be very hard to say. Sometimes trading is very light, and sometimes it is heavy. If a man is expecting a bull market the next day, and he may be long some wheat he will say, I will buy some calls even though I am long some wheat, I will buy some puts to protect myself, and some calls also. If the wheat gets up to the call price, he can sell out the wheat that is long. If the market continues going up he has still long wheat.

Q.—You can't give any percentage of the total trading at the end of the day that is looked after in this way? A.—I could not.

Q.—You couldn't give any percentage of bidding that is exercised the next day? A.—That all depends on the fluctuations of the market the next day.

Q.—Sometimes all of it would be? A.—Yes, all on one side.

THE CHAIRMAN—Mr. Sweatman, have you anything to ask the witness?

By Mr. Sweatman:

Q.—How long has this been in force in the Exchange? How long have you organized it? A.—It has only really been organized for I dont know how many months, a very few months.

Q.—What is the difference between the way it is handled now, and the way it was handled formerly? A.—It is under the supervision of the Grain Exchange, previously it wasn't.

Q.—What is the reason for that? A.—Well, I suppose the Exchange really thought it should come under their supervision. I am not a member of the council, so I don't know what is in the minds of the council.

Q.—Is it in charge of any special committee? A.—The Quotations Committee are really in charge of it just as they are in charge of the quotations, futures quotations.

Q.—Before it was under the Exchange could you buy privileges at any time during the market? A.—Yes, we could.

Q.—At any time during the day? A.—Yes.

Q.—Now you can't? A.—No we can't.

Q.—Is that the important distincttion between before it was organized and afterwards? You did not do it on the traders' floor before? A.—No, we did not do it on the traders' floor.

Q.—There is the distinction that you could not do it on the floor, and it was done any time during the day, but about the building, not on the floor? A.—For a long time it wasn't done on the floor and then it was done on the floor.

Q.—So that the important difference now is that it is under the control of the Exchange, and it can't be done except in this half hour? A.—That is it. Quotations are regular and they go out just as future quotations go out.

Q.—Was it indulged in to such a large extent that it would effect hedging or anything of that kind? A.—I think it is a benefit to hedging. I know a great many members of the Grain Exchange do not want privileges.

By Mr. Commissioner Brown:

Q.—It is a sort of overnight insurance? A.—Yes, sort of overnight insurance. And some of the traders on the Grain Exchange are very much against it for the reason that it limits fluctuations.

Q.—It doesn't register in the amount of the trading that is taking place, unless the privilege is acted on the following day? A.—Unless the privilege is acted on the following day.

Q.—That would show on the following day? A.—Yes, but it does affect the amount of trading in the pit in futures.

By the Chairman:

Q.—Before you leave that answer you say some of the members are against it because it limits fluctuations? A.—Yes.

Q.—I thought one of the great virtues of the system of futures was that it limited fluctuations? A.—Futures do limit fluctuations, but privieges tend to limit it still more.

Q.—Isn't that a virtue? Isn't that an advantage? A.—Yes, but some people like to see a wild market.

MR. PITBLADO—They are different people.

By Mr. Sweatman:

Q.—The Quotations Committee, that is separate from the Cash Closing Committee? A.—Yes.

By Mr. Commissioner Evans:

Q.—You have never in connection with that market anything at all resembling the Clearing House? A.—No.

Q.—Each trade is on the personal responsibility of those making it, is it. Their direct responsibility is to each other? A.—A personal responsibility until should the option be exercised the next day then the firm who made that trade would have to be personally responsible for it.

Q.—That is you could practically report that deal to Clearing House if it went to that point and the firm which had made that contract with you would become responsible then to the Clearing House, would it? A.—Not until the end of the day.

Q.—At the end of the day? A.—Yes, at the end of the day. If the option is exercised then the trade is cleared just the same as though it was a trade in futures.

By Mr. Sweatman:

Q.—What record is kept of it in the meantime? We put it on cards.

Q.—Separate cards, not on ordinary trading cards? A.—Yes, on ordinary trading cards.

Q.—Do you keep it until the next day? A.—Yes.

Q.—If the price does not go through it lapses? A.—It lapses.

Q.—If the price went through the privilege price, then it becomes a regular transaction that is cleared? A.—Yes.

MR. COMMISSIONER BROWN—Mr. Sweatman, would you develop briefly with the witness the work of the Quotations Committee, and the Cash Price Committee, and what effect that work has on the price to the farmer of the following day?

MR. PITBLADO—I think that would have to come from quite another group.

MR. COMMISSIONER BROWN—This witness mentioned those committees.

MR. PITBLADO—If he knows anything about them; but I had a memo to get somebody for that, and I didn't have time to get him here this afternoon. That is an elevator proposition, and not a broker's thing.

By Mr. Commissioner Brown:

Q.—Is that what you say, Mr. Cathcart, you are not competent to deal with that question? A.—I am not competent to deal with the committee on cash wheat prices, but I am on the Quotations Committee because that has to deal with the futures.

By Mr. Sweatman:

Q.—The Quotations Committee. How many members are on that Committee? A.—I am not quite sure. I think six or eight.

Q.—With a chairman? A.—With a chairman.

Q.—Has that any special set of rules? Is it organized under any special set of rules? A.—I don't know exactly what powers are given them.

Q.—Are you a member of it? A.—I am not, but I know what their functions are.

By the Chairman:

Q.—What are they? A.—They are to supervise all trading on the floor. If there is a question as to what price the market opened at in the morning they decide what is a fair price. If there are any complaints made regarding trading in the pit they regulate that. They regulate the closing prices. For instance, it happened today a man had a buying order at a certain price, 61⅛. It was claimed by one man that he had offered wheat at ⅛ and couldn't sell it, therefore he sold it at 61, and the man wanting to buy at 61⅛ never got his wheat. That complaint was lodged with the Quotations Committee. The Quotations Committee refused to allow the quotation to be recorded at 61, because they claimed there was a buying order at 61⅛ that could have been filled.

By Mr. Sweatman:

Q.—They have nothing to do with the quotations themseves, necessarily? A.—No, that is covered by the fluctuations of the market.

Q.—How do they regulate puts and calls? What is their function there? A.—Just the same as it is with the futures.

Q.—That is, they are really a sort of an Arbitration Committee that settles disputes? A.—Yes, the only other thing I can think of, if they catch you trading ten seconds after the bell rings you are brought up on the carpet.

By the Chairman:

Q.—Is that a serious matter, or a distinction? A.—It is most annoying, especially if it happens too often, then it might mean suspension.

Q.—Have you a copy of those rules? A.—I have not, no.

By Mr. Sweatman:

Q.—Can you give the Commission any further information as to the powers of this committee? A.—I could not, but I think they could be obtained from the Rules and Regulations of the Grain Exchange.

Q.—There is nothing further that you can add? A.—There is one thing I would like to say regarding trading in privileges. It limits still further the daily fluctuations of the market. For instance, last night the market closed at 62⅛ cents for May wheat. Puts or bids, as they are called, sold about 61⅜ cents or three-quarters of a cent down. When the market reached that point there was considerable buying, and all the way down to 61⅛, and the buying against those bids tended to keep the market from breaking.

By the Chairman:

Q.—Would you mind telling me how long you have in the morning to exercise your right? A.—Until the market closes the next day.

Q.—They go on the whole day? A.—They go on the whole day to the tap of the bell.

Q.—So it doesn't merely insure between the night and the closing, it is insurance for the whole of the next day? A.—The whole of the next day.

Q.—Could you buy one of these privileges at the beginning of the day? A.—We are not allowed to.

By Mr. Sweatman:

Q.—That is the difference between before, and the way it is organized now? A.—Yes.

Q.—Would you give a concrete example of a call? Take a price, just so they will understand thoroughly the way it operates. Take a call at 60 cents. Would you just give an abstract example.

By the Chairman:

Q.—I understand now the accumulation of these bids over night tends to stop a break the next day? A.—They tend to stop a break. People fortunate enough to have bought bids last night got a chance to buy the wheat below the bid price, yet the market closed one half a cent above the bid price, and there was a profit made. Although the market did not close through the bid price, they made a profit on it.

Q.—Sometimes the closing price on the day is settled very largely on the options and bids of the night before? A.—No, sir.

Q.—Doesn't it really affect it if it comes in at the end of the day like that? It affects the price at the closing of the day, the exercise of these options which otherwise would not have existed? A.—I don't quite get that.

Q.—Supposing that a group of these options were not exercised all day, but were exercised at the end of the day, wouldn't that virtually mean that the price at the end of the day was fixed the night before? A.—No, sir.

MR. SWEATMAN—I think, Mr. Chairman, that the witness has not explained as I understand the matter, that the privilege would not be exercised unless the market went through the price.

THE WITNESS—No.

By Mr. Sweatman:

Q.—Just give us an example, to be absolutely clear. A.—For instance, if you buy, as was the case last night, puts or bids at 61¼ cents and the market closes at 61⅞ naturally you are not going to sell the wheat to the man at 61¼ cents, you are going to sell it out at the close of the market, if you don't want the wheat. but, as I said, those who bought puts last night had a chance to buy their wheat this morning below the put price. Then the market had an advance, and closed ⅝ of a cent above the put price.

By the Chairman:

Q.—My point is a little different. I quite understood that the existence of these privileges in the market may stop a break? A.—Yes.

Q.—But it may stop a break at any time during the day? A.—Yes.

Q.—It may stop it at the very end of the day? A.—Yes.

By Mr. Sweatman:

Q.—Has it been a contention on the part of some of the members of the Exchange that the operating of these privileges during hours affected the hedging, interferred with the hedging? A.—I don't think so. I think it helps hedging, broadens the market.

Q.—During the business hours, before you organized it, you could buy or sell privileges at any time during the day? A.—Yes.

Q.—It has now been changed, and you can only do it for half an hour after the close of the market, am I right? A.—Yes.

Q.—Now, I am suggesting to you this question, have any members of the Exchange contended before this change was made that the selling of privileges, and the purchasing of them during these business hours unfavorably affected and interfered with hedging? A.—I have heard some complaints regarding the sale of privileges. I have heard some complaints because they were not sold during the session. I have heard complaints from exporters who are often during the day asked to offer wheat at a flat price. Now, as the Commission must have learned by this time, the grain business, the cash grain business, is worked on such a fine basis that if you offer anyone wheat with but a small margin of profit, and there is no chance of a sale, someone else may take more chances than you will and offer it cheaper, but if you can buy calls good for the balance of the day, and offer your wheat out to exporters in New York, Baltimore, Philadelphia or anywhere, or Liverpool or London, and have acceptance before the close of the market you can protect yourself by buying calls good to the end of the session, and then you would know what price you can offer your grain at. And they are used—quite a number of exporters use them for that purpose. However, we have tried to get the Association to let us have that privilege again, but the council has refused to give it.

Q.—Why were they not recognized before up to this time? A.—Well, I understand it was because there were complaints made by a great many people trading in privileges, which everyone seems to consider was a still worse form of what is called gambling, than trading in futures—that is, when I say everyone I am talking about the public.

By the Chairman:

Q.—It does two things, it enables you to carry through to the next morning, and also enabes you to trade during the night with Liverpool and other places? A.—Yes. There is quite a lot of spreading between here and Chicago. If privileges are further away here than Chicago, the man will buy them there and sell them here. And that also tends to limit the market the next day.

Q.—Are there special spreaders who sit up all night and do this? A.—Not all night. You don't have to with Chicago because they are only open the same length of time that we are.

By Mr. Commissioner Evans:

Q.—You have a direct wire connection with the grain prices in the day time and during that half hour? A.—Yes.

By Mr. Sweatman:

Q.—Why was the change made, and you were brought under the control of the Exchange? A.—Well, because I really think, as I say, although I was not a member of the Council, I think the real reason that rules and regulations governing privileges were brought in was because there was no hold upon the member who sold privileges. The exchange did not recognize any trades made owing to the purchase or sale of a privilege. If I was to buy before the exchange recognized them I will just give you an example of what could happen, and what has happened to me. You could buy calls maybe at 63 cents, and the market would go through, the market closed say at 65 cents and I would have two cents a bushel profit, and the seller of those privileges was unable to protect them, and unable to deliver the wheat at 63 cents, and would have been unable to meet his cheque in the Clearing House. For that reason the Exchange thought, I think, that there should be some regulation so that the general trade could be protected.

By the Chairman:

Q.—Is this public impression that the gambling element is added to by this market quite unfounded? A.—I think so.

Q.—Take the poor speculator who becomes extra bullish or bearish after both closing hours, is there nothing he can do except possess his soul in patience? A.—Yes, he could send it over to Liverpool if he got up early enough. They open up about 1 o'clock.

Q.—Can a bull and a bear do a private trade after hours? A.—Maybe, yes, if not done in the Exchange. Traded in in the possible privacy of his home, but I understand the rules forbid any trading whatsoever.

Q.—That is really frowned upon? A.—Yes, more than frowned upon.

Q.—Any loss of commission to anybody? A.—No, it wouldn't be a loss of commission. I might suddenly decide, I might see some news in the newspapers in the afternoon that would make me a little bit worried over long wheat, and I might like to sell that wheat, buy it in or sell it out as the case may be.

Q.—He can do nothing until the next morning? A.—He can do nothing.

Q.—What would you say is the effect of that on the price received by the producer? A.—Anything that tends to broaden the market improves the price.

Q.—You think it does broaden the market? A.—I do.

Q.—Do you think it is capable of being used for pure gambling as distinct from insurance in hedging? A.—I don't know what gambling is, except what I get out of the dictionary. I have never seen any gambling around the Grain Exchange.

Q.—I have almost come to the conclusion that there is no such thing since I came to Winnipeg. A.—The only gambling I have seen on the Grain Exchange is when a man might toss a quarter up with another man, and if they see you doing it they fine you a dollar because that is gambling.

Q.—It is almost a work of supererogation to indulge in that? A.—Sometimes our resources get so low we have to recuperate.

MR. PITBLADO—Mr. Sweatman handed me a note saying that he would like a representative of the Northwest Grain Dealers' Association to give some evidence as to the Cash Closing Price Committee, and explain the closing prices. That was only handed to me at noon. I am going to suggest, if you Commissioners will look at the Turgeon report I will give you the pages of it which will cover the point pretty well.

MR. COMMISSIONER BROWN—Can we get such an individual?

MR. PITBLADO—The next time you come.

MR. COMMISSIONER BROWN—Next week?

MR. PITBLADO—Yes, and it may be shortened by giving you the pages. Page 127 of the Turgeon Commission is an account of what the Northwest Grain Dealers' Association is.

THE CHAIRMAN—Then you enjoin us to read that between now and Tuesday?

MR. PITBLADO—I don't know that you can, but if you have a chance to look at it, it takes time to explain all this. Then if you come back to pages 16, from the bottom of the page, not quite the bottom, the last paragraph on page 16, and page 17, you will find that they deal with this Committee in the sending out of what are known as street prices. That is what they have to deal with, and I am going to suggest that what is set out in those pages is done today with this added difference, that we now have the radio which sends out these things twice a day. I think with that exception what is set out in the Turgeon Commission report is what is prevaiing today.

THE CHAIRMAN—We will endeavor to study that against you having witnesses for Tuesday.

MR. PITBLADO—Yes.

MR. SWEATMAN—That completes our witnesses for the day, Mr. Chairman.

THE CHAIRMAN—Then we will meet again here at 10 oclock Tuesday morning, and tomorrow morning at Regina.

(Commission adjourned at 4.30 p.m., April 16, 1931, to 10 a.m., April 17, 1931, at Regina, Saskatchewan.)

Royal Commission on Grain Futures

10 a.m., April 17, 1931,
City Hall,
REGINA, SASK.

THE CHAIRMAN—Ladies and Gentlemen: This is the fifth session of the Royal Commission of inquiry appointed to inquire into and report upon what effect, if any, the dealing in grain futures has upon the price received by the producer. This is not a judicial inquiry, or I should not be here. It is an economic inquiry, and therefore the procedure will not be precisely the same as you may be expecting in any other form of inquiry, and the Commissioners themselves will conduct the inquiry with the help of counsel on particular points.

I want to impress upon witnesses the actual terms of our remit, what effect, if any, the dealing in grain futures has upon the price received by the producer. That is an economic question, and not a political one. I know nothing about any side, or parties, in the matter. I say that because I have received this morning a number of letters from people in this district which seem to show there is some confusion of thought about the actual purpose of the Commission. This Commission has not to inquire into anything, as far as I know, about altering the Grain Marketing Act, or the compulsory Pool, or half a dozen other subjects that people seem to be anxious to write and speak about. So I tell you from the outset that witnesses will be given the greatest freedom to express their views, providing they keep within the terms of the remit. It will be my duty to prevent witnesses from straying into all kinds of extraneous matters, and matters other than this question I have already referred to, that is in so far as this question of price received by the producer is affected by the futures market. I would ask those who come on early to have respect to the rights and claims of others, and to keep themselves as far as possible to the point, and not take too long, or to indulge in any repetition. We are all of us capable of seizing the point when once stated, and we do not want, therefore, a waste of eloquence. I will ask Mr. Sweatman if he will bring on the witnesses in the order in which it is convenient to take them.

MR. SWEATMAN—I will call Mr. Harry Marsh.

HARRY MARSH (called).

By the Chairman:

Q.—What are you by profession, Mr. Marsh? A.—A farmer.

Q.—Now, will you please give your own statement in your own words on the subject of the inquiry? A.—Yes, Mr. Chairman, I believe that the grain futures market as now operated is not in the interests of the producer, and for the following reasons. I believe at times the present operation of the grain futures market builds up a wrong psychology in the minds of the farmers as to the actual world price of wheat. As an instance, in the crop year of 1924-25 we had an instance of wheat starting out at a fairly normal price of about $1.30 and rising up to, in the following January, about $2.22. It seems to me as a farmer that at that time it was utterly impossible to put wheat in to export, and on that account the farmer himself had an entirely wrong idea as to what the world would pay for its wheat, bought options fairly freely, and when the toboggan came, in which we came from $2.22 down to $1.32, the farmer lost very considerable money.

Q.—About when was that? A.—That was running from January 1925 to the low point of April 1st. My statement on that is that due to the fact that it is possible to build up a bull psychology, which in the farmer's mind leads him to believe that world values of wheat are considerably higher than they actually are, he invests his money, and when the reaction comes he loses his money. The point I want to make is there are times when our futures market is absolutely beyond control, and these men come in who have no actual knowledge of that market, and get an idea which carries them right clean away, drives prices right up beyond what they can possibly hope to obtain a profit on. Then on the other hand, in the crop year of 1930 we have another instance of where an option market is absolutely powerless to hold price levels.

Q.—When would you say that applied? A.—That applied to practically the whole of the 1930 crop, from September 1st up to date. I have with me several extracts taken from the Grain Trade News, the trade's own paper, which show quite conclusively to me that at times almost continuously the weight of hedging pressure itself has driven prices down.

By Mr. Commissioner Evans:

Q.—What do you mean by trade's own? A.—The Grain Trade News. Would you like to have the extracts from it?

Q.—It is a reproduction of market reports? A.—Yes, reproduction of market reports, I suppose. There is one here of September 4, 1930: "October touches 81⅞, below low point of 1915—country marketings heavier and hedging pressure results. The steady tone was not maintained and buying support fell away, as has been the case on previous days, so that steady hedging pressure and selling by locals caused a rapid downward trend."

Q.—Is it your view that the hedging market would necessarily hold prices up? A.—I am not trying to make that statement. I am trying to state that at times the hedging market is absolutely helpless to prevent a downward trend as it is also helpless to prevent a spectacular rise.

Q.—In either case is it responsible for the movement? A.—It is impossible to prevent certain things, is the statement I am trying to make.

Q.—With regard to that 1924-1925 crop, does your recollection go so far as to remember that about the month of October it was discovered that rust had affected the Argentine crop exceedingly seriously? A.—I want to state, Mr. Commissioner, that may have been a fact. I want also to state this that there have been times in other years, as in this present year and last year when certain information purporting to come from the trade or members of it, has tended to encourage speculation of farmers. I have a document here, which I can file if necessary, which will substantiate that statement. Another point I would like to make is this, that at times it is a wrong psychology that is built up in the farmer's mind which tends to increase production. Men believe that prices are going to be satisfactory over a certain period and they invest their money in lands, increase production and by doing so aggravate the whole mess we are in.

Q.—Let us get that clear, then you think that the futures market does increase prices and therefore encourages trading? A.—I am not saying that. I want to make this statement that in my opinion a wrong psychology is built up, and this psychology is not based on actual facts, but on supposition, purely on supposition.

By the Chairman:

Q.—It is your opinion that the existence of the futures market sometimes drives the price higher than it would otherwise be, and sometimes lower? A.—Yes.

Q.—You think it increases fluctuations? A.—Yes.

Q.—You know the argument, of course, that it does not, that it diminishes fluctuation? A.—I have heard that argument but I do not subscribe to it.

Q.—Do you think, apart from the increased fluctuation that you attribute to the futures market, that the average price under the futures system is more or less than it would be without it? A.—Can I answer that in my own way. The average farmer is not so much interested in what a price quotation may be, he is interested in the actual figure that he gets, and with the fluctuation in prices the farmer who is compelled to sell his grain by the wagon load does not get the market price. He does get the market price less the carrying charge to the nearest option market.

By Mr. Commissioner Evans:

Q.—Would you expect anything else? A.—I am stating the fact, not expectations.

Q.—But if his grain was not actually at the market point he could hardly expect to get the price at that point? A.—My point is this, if you have wide spreads it would be much better for the farmer in my opinion if we could have some means that would give us a fairly normal level.

By the Chairman:

Q.—You think the farmer is much better off without fluctuations? A.—Much better off.

Q.—The great thing is to have no fluctuations? A.—That is my view.

By Mr. Commissioner Evans:

Q.—Would you mean an even price year after year? A.—No, the price must be governed by the natural law of supply and demand and not by a stimulant.

By the Chairman:

Q.—Supposing there was a big world crisis really affecting the price of commodities all over the world, would you expect that any kind of market, futures or otherwise, would be able to hold prices? A.—Certainly not.

Q.—So you would not lay it to the blame of the futures market that it hadn't held back the recent decline? A.—No, all I wanted to point out was it was simply impossible to hold it.

Q.—Did anybody claim it would? A.—I have heard no claim except we have heard the argument quite often that the futures market is the ideal system, but it does certain things which I do not think it should do.

Q.—Supposing it were an ideal system in normal times when the world prices of commodities generally are stable, it does not follow it would be a bad system merely because it failed to act as a brake if everything went to pieces? A.—If it only acted in that way my argument would be flat, but we have the bull side as well as the bear.

Q.—Supposing prices of all commodities all over the world are increasing in value, would you expect the futures market to hold? A.—If it functioned properly it would.

Q.—Supposing the world price measured in gold advances 100 per cent, could anything stop wheat? A.—No, that is not my point. My point is that on the futures market last year the price of wheat in this country reached a point higher than the world value of wheat; that is not proper.

Q.—Do you think that has happened? A.—I think it has happened in 1925, and to some extent in 1929.

Q.—You think there ought to be a system of marketing which would prevent wheat

rising above the general price level of commodities, or going down away below it? A.—Yes.

Q.—You think there should be something done to make it move at a general level? A.—Yes.

Q.—Do you think that would happen if you had an absolutely open market without futures? A.—I think if we had an absolutely open market without futures we might possibly get much closer to what the world would pay for wheat than it does now.

Q.—Have you thought that the difficulty would be overcome if you abolished the futures market in one place, like Winnipeg, or would you have to abolish it everywhere? A.—I would think it would have to be universal.

Q.—If there are any things about the futures market that you do not like you wouldn't get rid of your troubles merely by abolishing a local market, inasmuch as you would have all other markets competing? A.—That is true.

Q.—So your remarks would apply to trading in futures as a general thing over the world? A.—As a general thing, except that we in Canada have no access or have no means of having any control of prices outside of our own country, but things must begin somewhere.

Q.—You think if there was any abolition of dealing in futures it might start in Canada, and the rest would follow? A.—Everything must have a genesis.

By Mr. Commissioner Brown:

Q.—Would you suffer while the others were trying to catch up? A.—Under certain conditions I think not.

Q.—What are the conditions? A.—The conditions would mean, I think, total control, possibly.

By the Chairman:

Q.—International control? A.—Possibly national to begin with. There must be a genesis some place.

Q.—And ultimately international? A.—Yes.

Q.—By international convention to abolish trading in futures? A.—Yes, or by international agreement.

Q.—You spoke of wrong psychology. Weren't you referring to the farmer himself being impressed by the quotations in futures, and himself investing money in them? A.—Quite true.

Q.—It wasn't so much the sale of cash wheat? A.—No, if I may submit this, this will state pretty clearly what I mean (handing document to the Chairman).

THE CHAIRMAN—I will read it. "An advertisement in the 'Saskatchewan Farmer,' September 1st, 1929, 'Crop conditions the world over appear to be unsatisfactory this year, so much so that we consider higher prices warranted than those prevailing. It is our opinion, given after careful study of the world conditions, that our wheat should be worth today $2.00 per bushel with considerably higher prices later on.

'Assuming that importing countries take 850,000,000 bushels, which is a moderate estimate, as last year they took 927,000,000 bushels, and European crops this year are short of last, we have every indication of a shortage in supplies before another crop has been harvested. For this reason we look for wheat to sell at $2.25 per bushel, barley $1.25 and oats 95 cents.

'By shipping your grain to us you can obtain a substantial advance, and can then hold for a favorable market.' "

Q.—That is signed "McBean Brothers." They are not asking you to deal in futures? A.—Not directly.

Q.—They are asking you to hold your grain for a rise? A.—It is not a direct inducement, but by inference they are building up a psychology that prices will go higher.

Q.—Isn't that an invitation to hold your cash grain and everything else you can? It is not an invitation to buy futures? A.—Not directly, but suggestive advertising in my opinion is much more effective, and has much better results.

Q.—Isn't it possible to have copies of advertisements put into a paper even though they have nothing to do with the system of futures? A.—It might be.

Q.—They invite you to put your grain with them and hold it for an advance, for a favorable market. They could hold it just as well in a market with no futures as with them? A.—Yes, but that would have quite a little influence on the psychology of the farmer.

Q.—Have you any similar advertisements where they are invited to buy and sell futures? A.—No.

By Mr. Commissioner Evans:

Q.—Have you any examples of similar advice from other sources? A.—No.

Q.—Are you a Pool member? A.—I am.

Q.—You listened to their radio talks during this period? A.—Yes.

Q.—Aren't you producing any evidence from these sources? A.—No, because I fail to find any.

(Quotation of advertisement referred to produced and marked Exhibit 30.)

THE WITNESS—There is just one other statement I would like to make, and that is this. In reading the Press I notice that one side seems to think these particular marketing operations are almost perfection. Across the line in the United States we have what is known as the Grain Futures Administration Board.. It would seem to me that if this system is all that is claimed for it, then a Board similar to what is in existence in the United States, controlling futures, would be of considerable benefit to the price.

By Mr. Commissioner Evans:

Q.—You say controlling futures. Do you know what it does? A.—Controls the operations to some extent, and regulates them.

Q.—Do you know to what extent? A.—I know records of all trades must be recorded.

Q.—If that were the case in this market would that objection be removed? A.—If all things were recorded here, and the person on whose account trades were made were known, I think that if the system is what it is supposed to be it would be beneficial to the system itself.

By the Chairman:

Q.—Would the benefit mean—we are only interested in this point of view, that is the improvement of price received by the farmer—would it improve the price received by the farmer? A.—No, it would not improve that, but it would give the farmer a much better idea of the things carried on in secrecy.

By Mr. Commissioner Evans:

Q.—What do you mean by secrecy? Have you ever attended a session, say of the Winnipeg Grain Exchange? A.—I have.

Q.—Is there any secrecy there? A.—Apparently not, to the lay eye.

Q.—Everyone is shouting out at the top of his lungs what the offers or bids are? A.—That is true, but the records of that are not accessible to anyone.

Q.—There are public galleries in which people can go and watch what is going on. What secrecy is there about it? A.—The operations, in so far as the physical operation, are open, but to the best of my knowledge it is utterly impossible to find in this country a complete record of transactions in grain. Across the line you can.

By the Chairman:

Q.—Aren't they putting it on the board all the time? A.—Yes, the fluctuations are there, but the volume is not.

By Mr. Commissioner Evans:

Q.—You would like to know the amount that each trader traded in in a day? A.—No, I would like to know the actual amount that went through the Exchange as compared with the actual production.

By Mr. Commissioner Brown:

Q.—Would you also like to know who is trading? A.—I would.

By Mr. Commissioner Evans:

Q.—Would that help, beyond satisfying your curiosity? A.—I think it would to a certain extent.

Q.—Would it do any good to know what volume? A.—I think it would.

Q.—You would enjoy hearing it? A.—I would know whether the abuses which are alleged are correct or not.

By the Chairman:

Q.—Are there some abuses which are alleged? A.—Yes, that the market can be manipulated. I have no proof of that, it is simply a general statement, a general idea.

Q.—That it can be manipulated? A.—Either way.

Q.—And that is an opinion quite frequently held by farmers? A.—It is quite a common opinion.

Q.—What other abuses are there? A.—I think that is the worst.

Q.—Is there also any idea as to how it is done? A.—Simply by pressure. We have heard a rumour of markets being raided.

Q.—How do they do that? A.—I have no knowledge.

Q.—Do you mean a whole lot of men get together and decide to do a certain thing? A.—I understand that.

Q.—You think that all this appearance of competition in the pit is a mere camouflage? A.—I have no way of proving it, because we have no access to information that would give the facts.

Q.—You have no evidence to support that statement? A.—No.

Q.—Merely a rumour? A.—Yes.

By Mr. Commissioner Evans:

Q.—Would the records you are talking about prove that? A.—I think if we had a Commission similar to that in the United States we would have actual knowledge of the bulk of the stuff traded in.

Q.—Would that do any good? A.—I think it would.

Q.—Apart from satisfying your curiosity. You understand what the Grain Futures Administrative Board does? A.—Collects that information publicly.

Q.—It doesn't exercise any control over the trading? A.—It lays down some regulations as to volume.

Q.—There is no liquidation on volume? A.—According to my information certain trades, or trades over a certain amount each day, must be registered, and they must have the name of the person trading in them.

By Mr. Commissioner Brown:

Q.—That is, if a big operator exceeds a certain amount it must be made known? A.—Yes. One illustration was the Soviet government in that market last fall.

By the Chairman:

Q.—Which is the worst feature from the point of view of business, one big operator doing something tremendous on his own, or a whole lot of little people getting together and doing the same? A.—I would say they are about equal.

Q.—Have you any knowledge of that actually happening? A.—I have no knowledge, but the common opinion is that they do.

Q.—You see there is an appearance in that market of intense competition, but the suggestion is, without evidence, that a whole lot of them really concerted together to do a particular thing? A.—I may make this statement, in so far as actual sale of grain at country points is concerned, there is absolutely no competition, there is one common price list sent out.

By Mr. Commissioner Evans:

Q.—That is relative to the Winnipeg price? A.—Yes.

By Mr. Commissioner Brown:

Q.—Don't you think after all that is a good thing, that is, if the price is right? A.—Oh, yes.

Q.—Because otherwise you would have all kinds of trouble? A.—Quite so, but we are told a good deal about competition, and free and open trading. As far as the producer is concerned it doesn't exist. Just one other statement, I have in my hand an extract from the speech made by the Premier of this Dominion with regard to this particular matter.

By the Chairman:

Q.—The Premier of what? A.—The Premier of Canada, The Right Honorable R. B. Bennett. This was made when he was leader of the Opposition.

By Mr. Commissioner Brown:

Q.—Is he supposed to be bound by that now? A.—I am giving the statement for what it is worth. I realize an Opposition member is not——

Q.—Was that made during an election campaign? A.—No, he made it on the floor of the House.

MR. SWEATMAN—I don't know that that would be evidence, Mr. Chairman.

THE CHAIRMAN—I will admit this.

THE WITNESS—"I ask the minister of national revenue, who is so anxious and solicitous in connection with frauds in the sale of mining and oil stocks, if there is any difference in selling wheat short by hundreds of millions of bushels, and selling mining and oil stocks short. Let him make a speech with respect to that, instead of shutting our eyes with respect to the real situation in the grain growing industry in Western Canada."

By the Chairman:

Q.—He is only asking a question? A.—Yes.

Q.—He is not making a statement? A.—Just asking a question.

By Mr. Commissioner Evans:

Q.—Do you agree with Premier Bennett in everything? A.—Naturally not.

By Mr. Commissioner Brown:

Q.—At that particular time he was endeavoring to criticize some member of the government in power? A.—He was trying to criticize the minister of national revenue.

By the Chairman:

Q.—Well, Mr. Marsh, I have let you read that, but I will say straight out the statements of politicians are not economic evidence. A.—I think I realize that fully.

Q.—All I want is economic evidence. A.—Well, these are extracts taken from the Grain Trade News (handing the Chairman certain documents).

Q.—These are extracts taken from the Grain Trade News referring to the movement of hedging? A.—Yes.

Q.—For instance, "Hedging pressure was not particularly heavy." Does this hedging pressure mean downward or upward? A.—Downwards in most cases.

Q.—Who publishes this Grain Trade News? A.—I understand possibly you, Mr. Evans.

Q.—This is an indication of psychology. I suppose that is what you mean? A.—Yes.

THE CHAIRMAN—All right, I will read that.

By Mr. Commissioner Evans:

Q.—You refer to the high prices reached in 1925 and again in 1929. At the time those prices prevailed in the futures market any farmer who had grain in a proper position could sell it and obtain the equivalent of that price? A.—He could, that is true. But there is one point I would like to make in connection with farmer psychology. I have heard it said that the farmer sells on the rising market.

Q.—Isn't that a good market on which to sell? A.—Yes, but from actual evidence and my knowledge of farmers, of myself and my neighbors, the farmer is naturally an optimist. If prices are rising he is looking for them still higher. I know I have had the unmixed pleasure on many occasions of supplying men with seed who had that particular thing in mind. Their crop went, and their seed went in covering the advance, and the whole thing went, and we had to supply seed to them in order to allow them to sow a crop.

Q.—Is that because they sold? A.—No, because they held, but that is the psychology of the farmer, to sell on a fall.

By the Chairman:

Q.—Do you think it is a good thing for him to hold his wheat? A.—In certain cases.

Q.—But in general? A.—In a certain period. I never hold above half my crop.

Q.—Why? A.—Because I want to split my risk two ways.

Q.—You sell half and hold half? A.—I sell half and hold half.

Q.—Which was the better course in the long run? A.—Over a term of years I think I got a little better than my neighbors, by that particular method.

Q.—What were your neighbors doing? A.—Selling. Many of them are compelled to sell.

Q.—You think if a man has sufficient bulk and capital he ought to hold? A.—I should say at least half.

Q.—That is splitting the risk? A.—Yes.

Q.—Being half a seller and half a holder? A.—Yes.

Q.—Do you think farmers generally ought to buy futures? A.—Most certainly not.

Q.—But you think the futures market creates a psychology which tempts them to do so? A.—Yes.

Q.—Do they generally lose money? A.—In my own personal experience there amongst the neighbors of my particular locality I don't know one over a term of years who has made any money.

Q.—By dealing in futures? A.—Yes.

Q.—Anything which creates a psychology in their minds to speculate in futures markets you regard as harmful? A.—Yes, because it decreases his income from the produce of his farm, in an indirect way, of course.

Q.—Do you think it would be better if he didn't read psychological literature at all, and simply sold half of his wheat when harvested, and held half until some months later? A.—Under the open market system, yes.

Q.—And not read any newspapers or market reports, or anything else? A.—You can't prevent the men from reading anything, but it is difficult at this time, if a man has ears, because it is over the radio several times as well.

Q.—Has the radio increased the temptation of the farmer to speculate? A.—Oh, I think if a person hears a thing daily they are liable to weaken, if their neighbors are weakening too.

Q.—So, however virtuous they are at the start they become gamblers at the finish? A.—I have found that. Personally I never bought a future myself, and never sold one.

Q.—You observe the evil effects on your neighbors? A.—I do.

By Mr. Commissioner Evans:

Q.—What is your alternative? You referred to some national control to begin with, and later to international. You have expressed some opinions which we can check up by the actual facts, to see whether the tendency and result are what appears to your mind, but you have an alternative system to present? A.—Yes, I have, but we were told this wasn't the time and place.

Q.—It would be very interesting to me to find out what you propose as a working system.

By the Chairman:

Q.—You proposed already an international convention? A.—Yes.

Q.—Without futures, for the sale of cash grain? A.—A direct transaction between the producer and the consumer.

Q.—By that you mean by the farmer to the baker in England? A.—I would say the farmer to the miller.

Q.—From the farmer to the miller in England direct? A.—Yes.

Q.—You would need some kind of intermediary? A.—Yes, you could get over that. It is not impossible. Possibly you would have to deal with the importer.

By Mr. Commissioner Evans:

Q.—Your idea is a compulsory Pool? A.—No, not necessarily.

Q.—Are you a supporter of that idea? A.—Quite.

Q.—If that compulsory Pool went into effect it would of course destroy the system that now exists, because all the grain would be held under another system? A.—If it was national.

MR. COMMISSIONER EVANS—It would seem to me it would be very interesting if we could discover how they think another system would work.

THE CHAIRMAN—I do not want to get too wide. It is germane in this sense, if the witness says that the futures system makes a price unfavorable to the farmer, and there is no help for that once there is an international system, he is entitled to adumbrate or sketch out whether there is a possible alternative, which I do not think we could develop. A.—Well, the alternative as I see it would be some form of total control of grain amongst the various exporting countries.

Q.—Have you ever thought of a world-wide organization for insuring against fluctuation in price? A.—Casually.

Q.—Wouldn't you say that is just as good as a cash market? A.—I don't think it would be any more expensive to the farmer when we consider his loss that he takes by fluttering in and out of the futures market as it now is.

Q.—The trouble with the futures market is not so much the thing that other people impose on the farmer, as the things he is induced to do? A.—The things that he does because he is induced to do.

Q.—It puts temptation in his way? A.—Yes.

By Mr. Commissioner Evans:

Q.—You have been speaking of incidental things, but your real objective is to wipe out the whole system? A.—Personally, yes.

Q.—That is what you are really interested in? A.—Personally.

Q.—And any correction in any details would merely give you the information as to the trade of individuals, and some other things, but that is not your objective at all. You wouldn't be satisfied until you wiped out the whole system and substituted something else? A.—I think before we took the latter step it would be necessary to have an actual complete knowledge of the transactions of the present system.

Q.—Why? A.—Because we must base on actual facts, and not on supposition.

Q.—But you are going to substitute something that is absolutely different? A.—Quite so.

Q.—You have made up your minds without getting these facts? A.—Different facts we have obtained elsewhere.

Q.—But you say you haven't the facts? A.—We have the facts elsewhere, not here. We believe the conditions are similar to here.

Q.—Then you have got all the information you need? A.—No, we can never get enough information elsewhere.

By the Chairman:

Q.—By elsewhere, you mean in the United States? A.—Yes.

Q.—That is you think if we follow that through we can find a parallel? A.—Yes, that is my opinion.

By Mr. Commissioner Brown:

Q.—Your opinion represents the view of a great many farmers? A.—I would say 75 per cent of the farmers whom I am personally acquainted with.

Q.—You have been a farmer how long? A.—Since 1908.

Q.—In Saskatchewan? A.—In Saskatchewan.

By the Chairman:

Q.—Would you mind telling us, from your experience, what proportion of the farmers hold their wheat, and what proportion sell outright? A.—In my own locality I would imagine that about 45 per cent of the farmers hold their grain as long as they can.

By Mr. Commissioner Brown:

Q.—How long is that? A.—It depends entirely on the financial obligations that they must meet. If they were free they would hold it much longer than they ordinarily would.

By the Chairman:

Q.—Do you think they would hold it until February or March? A.—Yes, sometimes into the following May or June. But the amount they hold to July is little, because financial obligations intervene.

Q.—Supposing a bull market comes along from some unknown reason, would that tempt them out much more frequently? A.—I don't think it would, personally I would say that, because if you get on a bull rise naturally if it goes from $1.50 to $2 we are going to hold to get that amount.

Q.—So he holds it longer instead of selling out? A.—Quite often he does.

Q.—We have been told when a bull market starts one of the people coming on the other side to supply the demand is the farmer clearing out his stored wheat? A.—It may be true to a certain extent that often he is compelled to sell.

Q.—You mean they say, "Here is a good time to get out, Jack, you pay up"? A.—Yes, that suggestion was made.

By Mr. Commissioner Brown:

Q.—You would say fifty per cent of the farmers are compelled to sell in the months of September and October? A.—Oh, in this stage I would say the percentage is even higher than that, in this stage of the game, in my opinion.

By the Chairman:

Q.—What percentage of your friends go in for buying futures, for dealing in futures, buying and selling? A.—This year a very small percentage: in past years quite a large percentage.

By Mr. Sweatman:

Q.—There have been some charts filed, and I spoke to you about them, and you wanted to make a comment on them? A.—In connection with the charts, my understanding is that the charts were filed on the spot prices. I think if the charts could be filed on the actual street price you will find that the farmer carries quite a little bit of that wheat himself that is he paid the carrying charge or received the option price less tthe carrying charge.

By Mr. Commissioner Evans:

Q.—Would you expect anything else? A.—No, I would not. But it has been said that some philanthropist unknown does that carrying for him. He does it himself.

Q.—We haven't had any evidence to that effect before the Commission so far? A.—Of course, we have different views on that, naturally will have.

P. H. GORDON, K.C.—Mr Chairman, as Mr. Marsh represents that body of public opinion, the farmers' public opinion which does not believe in trading in grain futures, and as I understand he is a director of the Pool, I think it would be interesting for you, sir, to know to some extent what use the Pool has made of the futures market in previous years, not of course touching this year, which might give the public information.

THE CHAIRMAN—I don't want to know anything about the present, but before we embark on that subject I would like to know what bearing that has on the remit?

MR. GORDON—I think it would show to what extent, and what price the Pool has paid the producer during the last four or five years, to what extent they have used the grain futures market. You have already before you the price paid by the Grain Trade over a number of years and it would be interesting to compare the two prices.

THE CHAIRMAN—I should prefer to have a satement that I can look at and read.

MR. GORDON—I would simply like to prove facts which this witness would admit at once that the Saskatchewan Wheat Pool, or the Wheat Pool, has three seats on the Winnipeg Grain Exchange, and that at times they have sold at the extent of between twenty-six million and twenty-seven million bushels of wheat short, and when there has been a——

MR. COMMISSIONER BROWN (interrupting)—Are you making a statement of fact?

MR. GORDON—I am, sir. You asked me to make it short, and I have the examination for discovery of Mr. McPhail, in an action pending in the Courts, in which this statement is made, that on two occasions they went into the open market and bought futures to stabilize the market to the extent of six and one half million bushels, on two occasions.

THE CHAIRMAN—I have two comments to make before you go any further. I am not at all convinced there is any comparison of prices between the two, as indicative of the effect of futures on the price received by the producer himself. It is so interlocked and controlled by the Liverpool market that no comparison of that kind is convincing. You can't take the price received by the Pool at a particular time, you have to take it from the first to the last. To be in an absolutely clear position you would have to average the result of the months to come with the past before we know the actual price received by the farmer, and before we could compare that with the price paid by the Grain Trade. I am very sceptical about whether that is going to lead us anywhere.

The second point is this, that we suppose that the people attached to the Pool methods are to that extent sceptical of the value of futures, and it is no evidence to us of the economic basis of the thing, that they choose to use the futures market.

MR. GORDON—Would it not be this, Mr. Chairman, if Mr. Marsh, a director of the Pool, has given evidence to the effect that the trading in futures is detrimental to the producer, and the Pool is acting on behalf of the producer, wouldn't it be interesting to know to what extent they have gone into this futures trading themselves?

MR. COMMISSIONER BROWN—We would have to go into all the conditions affected with the operation.

THE CHAIRMAN—You can ask him the question as to why the system of futures is detrimental to the producer, to the Pool producer.

By Mr. Gordon:

Q.—Why did the Pool, if it is a fact, sell short in June and July, 1929, between twenty five million and twenty seven million bushels of wheat?

THE CHAIRMAN—You are directing a remark to the witness about a particular date, a date which was in the middle of a world cataclysm, and it has no more to do with the normal operation of futures than the man in the moon.

MR. GORDON—That is true, but on the other hand if the Pool has gone in on three different occasions, if the witness would give that answer——

THE CHAIRMAN—I want to generalize as to why, if a thing is an evil thing, a righteous man has anything to do with it, that is all.

MR. GORDON—If you, sir, will ask that question I will sit down.

THE CHAIRMAN—No, that is the only question I will allow you to ask.

THE WITNESS—Mr. Chairman, I would like to say this. I am a director of the Saskatchewan Wheat Pool, and the Saskatchewan Wheat Pool has no seat on the Winnipeg Grain Exchange.

By Mr. Commissioner Evans:

Q.—But the selling agency has? A.—I am not a director of the selling agency, and that question, if I may submit, would have to be submitted to some man who has all the knowledge and not part of it.

Q.—Are you aware that the Wheat Pool sold futures, and bought futures, and also in addition to this carried futures for a long time in large quantities? A.—I am aware that the Wheat Pool have used all trading facilities open to it, irrespective of what they are.

Q.—Hedging. A.—All legal trade channels.

Q.—Have they used the hedging facilities of the market? A.—No, not hedging.

Q.—So, they did not use all? A.—No, all except hedging.

By the Chairman:

Q.—I presume we can assume that the Pool has done that at times when it thought the futures system would be of advantage to the producer. A.—Yes.

By Mr. Commissioner Evans:

Q.—To your knowledge has there ever been a single month in the last six or seven years in which the Pool had not an open account in the futures market? A.—I could not possibly answer that question accurately.

Q.—As a director of a Provincial Pool, if you are so interested in accounts, and the volume of accounts, you could have found out that. A.—I could, but I do not carry figures of that kind in my head.

Q.—You were not interested to find out about it? A.—Yes, I found out at the time, but I do not carry figures of that kind in my memory, and wouldn't be prepared to take a guess at it.

Q.—From your information—you say the Pool has used all the facilities of marketing except hedging?

MR. COMMISSIONER EVANS—On the general point, Mr. Chairman, it does seem to me there is a very direct evidence bearing on our economic question in these two positions, which we have to define. Here we have approximately fifty per cent of the crop carried under the hedging system, and another fifty per cent which, is now admitted, is not hedged, and it would be interesting to trace the effects on the price to the producer by a comparison of these two comparatively equal and large quantities. It would seem to me to be the most direct evidence procurable?

MR. GORDON—That is a point I was trying to make.

THE CHAIRMAN—If we could get that side by side, otherwise I am skeptical. If it were something closed or some years ago it would be well worth looking at, but I don't see how you can get it in cross-examination of this witness.

MR. COMMISSIONER EVANS—The Pool closed every year. It is not a continuous Pool.

THE CHAIRMAN—It has not any value at a time when world prices are moving, or when there is tremendous activity, and a very unusual carry over of wheat. It has to be in a normal stable period in order to have any economic value. I do not think this witness can give it, not as he sits on the platform.

MR. GORDON—Would you ask for it, sir?

THE CHAIRMAN—I will consult with my colleagues who to ask.

MR. BIGGAR—Would you allow me to say something to that before the closing session?

THE CHAIRMAN—Yes, you will have an opportunity of speaking to it.

By Mr. Pitblado:

Q.—I would like to ask Mr. Marsh one question as to the secrecy. You were speaking as a farmer, speaking on behalf of members like yourself who belong to the Pool, and how they feel in regard to transactions on the grain market. Is it not a fact, Mr. Marsh, that the Selling Agency through which the Saskatchewan Pool grain is sold have three memberships in the Winnipeg Grain Exchange? A.—That question I think should be addressed to a member of the Central Board.

Q.—Do you know? If you dont know, say so. If you do know, you might please tell us. You are a director of the Pool? A.—Yes

Q.—Have you or have you not? If you don't know, say so. A.—There is more information than I can give in reference to those seats being there.

Q.—I am not asking you for the reason, just the fact? A.—The fact is yes.

Q.—Have you ever heard from these members or from the Central Selling Agency any complaint about matters on the Winnipeg Market, the futures market, being secret as you have talked about? A.—They are asking it as far as the general public is concerned.

Q.—I say, have you heard any complaints from these members of the Exchange, the Pool members of the Exchange, about secrecy in these transactions on the Exchange? A.—No, because I am not a member of the Central Board where those things are discussed.

Q.—You haven't heard that, or have you heard from these members or from the Central Selling Agency anything about this being—I think you use the word "farce"? A.—No, I didn't say that. That wasn't the term.

Q.—What was the term that was used? A.—I think at times things could be manipulated, I believe.

Q.—It wasn't manipulation, but these transactions not being real? A.—No, I didn't use that term.

THE CHAIRMAN—Thank you, Mr. Marsh.

F. E. FANSHER (called).

By the Chairman:

Q.—What is your occupation, Mr. Fansher? A.—Farmer.

Q.—You know our question, will you give us your answer to it in your own words? A.—I would prefer to go to the seat of the situation as affecting me as a producer and my fellow farmers in that the foundation of futures trading is based principally on the activities of the small producer, such as farmers, small business men, clerks, stenographers, even bootblacks have been purchasing in these.

Q.—Do you mean as a general course or in a particular boom period? A.—Whenever economic conditions will permit.

Q.—That is, when you get a bull market out comes the stenographer and bootblack? A.—Yes. In such stress of times as these we find that the basis or foundation of futures trading is very much demoralized, which has an exceedingly detrimental effect on the prices that the producer receives.

Q.—These stenographers and bootblacks, are they buying or selling? A.—They enter the market on a bull market.

Q.—They are bulls? A.—Very rarely, in my experience, in talking with them, have they entered the market on the bear side.

Q.—Will you tell us how that has a demoralizing effect on the price the producer receives? A.—In a time like this when they are not on the market as bulls to bolster the price, that question is easily answered. That price has to adjust itself far below the cost of production, far below the average price that the producer should get until it is lucrative for some others with finances sufficiently strong to step in on the market.

MR. COMMISSIONER EVANS—Has the actual grain been disappearing at this ridiculously low price, throughout the world, have they been using the wheat? A.—In regard to economics or the transfer of wheat?

Q.—The way you put that rather suggested you thought that it was some intermediate class that was the cause at the present time of the low price. I want to know whether the ultimate consumer, at this price, was taking the supply off the market or not. A.—It was the lack of support of that intermediate class that was the cause.

THE CHAIRMAN—That is, you say, prices go very low when these people are not in the market? A.—Yes.

MR. COMMISSIONER EVANS—At this low price are the consumers of the world using up the wheat supply? A.—The consumption is curtailed because of lack of purchasing power.

Q.—You think that a futures market would hold up the price even when the purchasing power is curtailed and even at fifty cents a bushel the world won't eat all the wheat, even under those conditions you expect the futures market to hold up the price? A.—I would say that the futures market has a demoralizing effect; unless the class of people I made reference to come to its support the foundation of the futures system is undermined and demoralized.

Q.—What you mean is the futures system is the only one that can be of advantage to the farmer if you bring in such a lot of people as ought not to be in such a market? A.—Yes, the bulk of the crop is dumped at a time when it is not able to be absorbed, when consumption is at a normal rate.

Q.—Does the futures system tempt farmers to sell their wheat? A.—It compels them to sell, too often. When the farmer ships his wheat, if the price is advanced, if the futures market has enhanced the price, and he has drawn an advance against it and with the enhanced price he may draw still more on that particular shipment and he may find himself closed out when there is a slump. He is at the mercy of such a situation.

Q.—Is it your view that the better system is that there should be no futures market but that the farmer should hold his wheat? Is that the best system? A.—I am of the opinion that the futures system is not beneficial to the primary producer, I do not think the farmer is in a position to hold his wheat but collectively under some system either governmental or in some other form he might be able to do so.

MR. COMMISSIONER EVANS—How would the finances be provided in that case? A.—By a financial institution that would take care of it instead of the present system.

Q.—At whose credit? A.—The National credit.

Q.—Your idea is it would involve continuing government financing of grain marketing? A.—I do not say government financing.

Q.—I thought you said on the general credit? A.—As I understand, the credit of any country is composed of the ability of that country to produce wealth from its natural resources.

Q.—You state as individuals they have not the resources to carry on? A.—Yes, but collectively they could have.

Q.—Collectively? I want to know what that collective form is, is it your national treasury? A.—I took down your pronouncement at the start and I hardly think that comes within the scope laid down for the inquiry.

THE CHAIRMAN—You might tell us how it applies. Your evidence is to the effect that the futures system is none too good for the farmer. You say an unregulated system is not as good as a regulated system, or that perhaps the latter is better than an unregulated system, and Mr. Commissioner Evans has asked you what kind of a regulated system, whether you mean National insurance or governed by you farmers. What do you mean when you say that a regulated system would be better than the futures market? A.—Something similar to what is outlined in the Marketing Act of Great Britain today, that some sort of national organization should market the national product of Canada.

Q.—Do you think that the system of futures is worse for the farmer than a system under which the farmer is left entirely to his own devices without any external support other than he himself exerted? A.—Absolutely.

MR. COMMISSIONER EVANS—You made some reference to the time when the grain comes heavily on the market. Is it your opinion that at those times, on the average, the prices were unduly lower than they should be? A.—My experience as a farmer since 1905 is that the prices are unduly lowered.

Q.—We have not had time to study them yet but we had figures and computations submitted to us, checked by a chartered accountant, in which for twenty years, ten years before the war and ten years after the war, the prices in each of the months of September, October, November and December, were compared with the prices in the following May, with interest on the actual prices of the particular month and the ordinary legal carrying charge in the elevator, the storage charge, and so far as we have had any facts before us they are overwhelmingly that the farmer would have lost money by holding till May. That is that when the rush of grain is on it does not on the average depress the price? A.—May I ask if those facts and figures contain the amount of wheat that is involved in the different periods of sale?

Q.—That would not matter in this particular case. If you had sold in the month of September at any time and had managed to secure at least the average price or the average price in that month and if as an alternative you had held till the following May you would have lost in price and interest on it and would have been paying the storage charges and in the end you would have come out with less money than if you had sold in September, October, November or December? A.—My actual experience would refute that statement.

Q.—You may have struck one of the other periods in which that was not true or that you did not consider interest and carrying charges for the time.

MR. COMMISSIONER BROWN—These same charts would indicate that the August price was fairly bullish and then there was a recession in September, October and November; do you know whether or not that has been your experience; that is that the market starts strong in the fall and then recedes? A.—My experience is that it starts strong in the fall before the farmer has his actual wheat on the market.

MR. COMMISSIONER EVANS—That is whatever balance has been left over of the old crop was selling at the higher price? You would not have much of the new crop being sold in August? A.—Very seldom is the new wheat crop available for marketing then.

MR. COMMISSIONER BROWN—There are certain a few million bushels sold at the end of August? A.—Yes.

MR. COMMISSIONER EVANS—In your experience, do you find that the price as a rule recedes from August on for the next three months? A.—On the average, invariably. There is another point I wish to bring out; the experience of the last year, the policy adopted by the Federal Parliament of orderly marketing; that is something that has been broadcasted over this country in the last few months: that is, it is necessary to market Canada's primary product in an orderly manner.

THE CHAIRMAN—You mean spread eagle? A.—As world consumption will warrant, feed the market; in other words that seems to be the concensus of opinion. It is quite apparent to me with every Tom, Dick and Harry, as a basic principal of futures trading,

jumping in and out of the market, becoming bullish as it were, coming in in the market and he is often closed out, is causing fluctuations which are very detrimental to the orderly marketing of our crop. I think that principle is based on the economic conditions that have come about in the last eighteen months and taking the history of grain trading in the past twenty years it has not given us much data to form an opinion. We have to meet those conditions with probably new ideas, new systems and so far as I have been privileged to study I believe that as a statement of fact.

THE CHAIRMAN—I would like to know whether your view has been intensified by what has happened in the last ten months or whether it was evenly held when prices and supplies were normal. A.—I have held this view for some time. I would hardly say it has been intensified although probably the past eighteen months have furnished sufficient proof that my contention is sound.

MR. COMMISSIONER EVANS—I want to understand your reference to the Dominion Government having some policy. Is there any policy adopted or put into effect with respect to what you call orderly marketing. A.—The statement has been published by the Associated Press and it must be known to all and no doubt it is known to the members of the Commission.

Q.—What is known? A.—That this statement has been made.

Q.—Political emanations do not carry us far; we would like you to tell us how you think orderly marketing differs from marketing according to the conditions as reflected in Liverpool prices. It will be news to me. A.—I do not know.

MR. COMMISSIONER EVANS—Have you been a member of the Pool for six or seven years? A.—I was a member of the Pool after the first year.

Q.—They are carrying out the policy on which they were founded? A.—Yes.

Q.—Hasn't it met your views of what orderly marketing should be? A.—So far as they have been able to do it.

Q.—But you still think that something more than that is necessary? A.—Yes. There is another point I would like to leave here, that is that this futures marketing leaves the gates in Canada wide open to any individual who desires to enter this market and demoralize it as they see fit, if economically advantageous for them to do so. I believe we have evidence of it published, some is circumstantial, that this thing has been done and in the last eighteen months it has been very detrimental to the interests of the primary producer.

THE CHAIRMAN—Do you think the fact that the market is open to the whole world is always against the farmer? A.—In some instances.

Q.—If they came in as bulls, wouldn't it help the price you got? A.—It would not be to their interest to do so.

Q.—They come in as bears? A.—Yes.

Q.—Have you any evidence of that? A.—I believe it was stated before your Commission.

Q.—We have had lots of statements before our Commission. They do not all agree. A.—This statement was by the chief official of the Grain Exchange as to the amount he sold short. The answer was something similar to this: According to price reports, that that was taken care of internationally.

Q.—That the bears came from outside and that the bulls were all home-grown? A.—Yes. There is probably one other thing I might mention, to emphasize the point that the primary producer loses out; 75 or 80 per cent of them are closed out who hold their grain, if not held on the farm. I have still papers in my possession where I supplied seed grain to men in that position and who had their grain taken from them. I have had information of such a situation as that from the actual farmers.

Q.—Closed out, how? A.—Closed out because the price fell below the amount of money he had drawn on his grain.

Q.—He was holding for a rise and the price went against him and he was foreclosed on his grain? A.—He did not sell at the price he was supposed to have sold at by holding his grain.

MR. COMMISSIONER EVANS—You mean he could have sold at a higher price earlier but did not do so? A.—Yes and I would say that it seriously interferes with the system of production.

THE CHAIRMAN—What has been your own practice, to hold or sell? A.—I have held a percentage of the wheat over to the summer and marketed it then.

Q.—What percentage have you held over? A.—It varies, some years a half, some years a third and some years none at all.

Q.—How do you decide? By what you think is the trend of prices? A.—The trend of prices and world conditions, as near as I can judge.

Q.—Which proved advantageous in the long run, to hold or sell? A.—The dominating principle is to hold till summer.

Q.—And they find the market runs against them and get closed out? A.—There is a difference in the holding. I hold on the farm. If I held in the terminal elevators and had drawn an advance against my grain I would have been in the same position as some of the others, I would have found that while I was busy with my farming operations that I had been closed out. I would have found myself closed out.

MR. COMMISSIONER EVANS—That is you received nothing for interest or for storage on that wheat? A.—I always took that into account.

THE CHAIRMAN—You were able to afford to hold your wheat? A.—Not always.

Q.—Were you able to get an advance on your wheat on the farm? A.—When I was holding my wheat I never required an advance.

Q.—You had sufficient capital to hold your wheat on the farm and the other man who had put his wheat in the elevator and got an advance against it was closed out and fell down? A.—Yes.

Q.—That is another practice? A.—Yes, that is another practice that has been followed until recently.

Q.—I judge from your evidence that a man who has not much capital, he is at the mercy of the market in the holding of his grain but if he has got plenty of capital it is worth more? A.—To the best of my information they can do that collectively and it would be beneficial to the producer if it was so done, that is collectively.

Q.—Your answer on the main question is that the system of futures gives the farmer a worse price than he would have in a regulated market, and a better price in an unregulated market but not as good as under another system of regulation? A.—Yes.

By Mr. Sweatman:

Q.—You have been a member of parliament? A.—Yes.

Q.—And in that position you have been in close touch with a large number of farmers? A.—My experience has been a little bit wider than the average. I might also state I was on the Grain Committee in the House of Commons.

THE CHAIRMAN—Thank you.

H. T. HANSON (called).

By the Chairman:

Q.—Are you a farmer? A.—Yes, sir.

Q.—How long have you been a farmer? A.—Twenty years, at least.

Q.—You know our question. Will you tell us your views in your own way? A.—In regard to what?

Q.—Our question is: What is the effect of the futures market on the price received by the producer? Does it increase the average price, or does it lessen it? Does it make the fluctuations more, or does it make them less? A.—It may do both.

Q.—Which does it do the most? A.—I don't think there is any difference.

Q.—Tell us what you think of the system of futures? A.—I think it is all right.

Q.—You think the farmer gets as good a price with the futures system as he would without it? A.—Yes, I think so.

Q.—Does he get a better price? A.—That depends on a lot of things. I think the greatest drawback of the futures system is the lack of proper understanding of the futures market on the part of the farmer.

Q.—You think that if the farmer understood it better, he could use it to better advantage? A.—I do.

Q.—And what do you think he should do to use it to better advantage? A.—For instance, if the wheat is varying a little in price in the fall when he threshes his crop, if he sells it for cash and has an idea that the price will be better six months in the future, he can buy futures against it and he can carry his wheat that way. I do that, myself.

Q.—You do that? A.—I do.

Q.—Do you always sell your wheat, or do you sometimes hold it? A.—I never hold it.

Q.—You always sell it and buy futures? A.—Yes.

Q.—You would not buy futures if you thought prices were falling? A.—No.

Q.—What part of the year would you buy futures? A.—At the time I would consider the price was very low.

Q.—You think the futures market has done you good? A.—It has never done me any harm.

By Mr. Commissioner Brown:

Q.—During the twenty years you have been farming how many times would you operate in that way? A.—I have always done it.

Q.—Do you mean to say that every year during your twenty years' experience you have sold your wheat and bought futures? A.—No. I mean to say this: I never carried wheat. I always sell my wheat at threshing time. If I consider the price is very low and there is a good prospect of the wheat going up in the future, then I will buy.

Q.—What I want to get at is, in how many of the twenty years, what proportion, would you speculate in that way? A.—Well, Mr. Commissioner, in the first place, I would not call it speculation.

THE CHAIRMAN—You would call it investment.

MR. COMMISSIONER BROWN—The more enlightened members of the Grain Exchange call it speculation.

THE CHAIRMAN—They don't call it gambling; they call it speculation.

WITNESS—It makes no difference to me whether I speculate in my cash wheat or buy futures.

By Mr. Commissioner Brown:

Q.—I don't care what you call it, whether it is investment or speculation. What I want to get at is what proportion of your twenty years' have you operated in that way? A.—Well, I can't say, for the reason that I don't keep books that way. I simply use my best judgment in the year I operate and forget about it.

By the Chairman:

Q.—Is it three-quarters of the time—or half the time? A.—Have I bought futures against my wheat three-quarters of the time——. I would say, yes.

Q.—Three-quarters? A.—I would say so.

Q.—So, roughly, you have bought futures fifteen years? A.—Yes.

Q.—How many years of the fifteen have you made money by it? A.—Well, I keep no books. That would be impossible to say. But I would say this, I have profited by it.

Q.—Would you recommend every farmer to do that, or only those farmers who have studied it as closely as you have? A.—I think the greatest drawback of the futures market is the lack of practical knowledge on the part of the farmer of the futures market.

Q.—If he knew it better, he could use it to better advantage? A.—Yes.

By Mr. Commissioner Evans:

Q.—Have you ever found any difficulty in selling your cash wheat when you delivered it? A.—No. In that respect I am in a considerably different position than the Canadian Pool farmer. I have always been able to sell my wheat on the Exchange at the best price.

Q.—You have always found a market for your cash wheat? A.—Yes.

Q.—A market that was in relation to the futures quotations? A.—Oh, yes.

Q.—There was never any time when someone would not buy it? A.—No. There was never a time when I could not sell my wheat.

By Mr. Commissioner Brown:

Q.—In what way do you intelligently guess the future on the futures market? A.—By watching world conditions.

Q.—How do you watch world conditions—by the Press? A.—Yes, to a very large extent, I might also say I have farmed in different parts of the world. I have farmed for a number of years in the Argentine, and I have gained some experience and practical knowledge which perhaps makes me able to see things—not casting any reflections on the farmers—a little bit better than the average farmer does.

By the Chairman:

Q.—You have a wider experience? A.—Yes.

Q.—When you read anything about the Argentine crop you know exactly what it means? A.—That is right.

Q.—So you have some advantage over people who have not been to the Argentine? A.—I have.

Q.—Have they a futures market in the Argentine. A.—Yes.

Q.—Working in the same way as here? A.—Yes.

Q.—Did you learn your methods of studying there? A.—Well, to some extent, although I did not operate very much down there.

Q.—When you study do you look at the figures of the crop and prices for yourself, or do you study what people say about them? A.—No. I look at facts. For instance, to explain just what I mean, in the year 1929, when I saw there was a world carry-over of 650,000,000 bushels, approximately, and wheat was $1.70 a bushel, I thought it was time to sell the wheat.

Q.—You were not one of those who thought it was a fine bullish situation? A.—No.

By Mr. Sweatman:

Q.—Did you buy futures in 1929? A.—Yes, I did. Of course, I sold them again, too.

By the Chairman:

Q.—You don't always hold your futures right up to the end? A.—No. Only fools do that.

Q.—Part of your practice is to watch when to get rid of your futures? A.—I am satisfied when I can get in between the two extremes.

I would like to ask the Commission a question.

Q.—Oh, don't do it. What kind of an answer do you want? A.—Well, anything that comes to your mind.

Q.—Well, you ask your question, and I will see which one of us will answer it. A.—I would like to ask this question. Is it possible for a large operator to go into the Grain Exchange and sell wheat short and have a fictitious buyer to buy it, and in that way depress the futures market?

Q.—To create a price, himself? A.—Yes.

Q.—We have no evidence that that is done. Nobody has made the allegation that it is done.

WITNESS—May I ask Mr. Commissioner Evans that question?

MR. COMMISSIONER EVANS—As I understand it, not only has it not been done, but it practically could not be done. Any trade put through in that way would have to be fully margined and no one could enter into a trade of a million or more bushels without being prepared to safeguard it by putting up the money.

WITNESS—I understand that, Mr. Commissioner. But is it possible for a large operator to sell wheat short and have a fictitious man to buy it, and at the same time for the seller to buy cash wheat and dispose of it on the rise of the market?

MR. COMMISSIONER EVANS—I understand that certainly is not done.

WITNESS—Is it possible; that is the question.

MR. COMMISSIONER EVANS—Well now, you are asking me about a particular point about the market which I am not prepared to answer, but I will get some information about that, as far as I can, just to see how it would work out, and we will see that you get the answer.

WITNESS—My reason for asking the question is this: There has been considerable said about manipulation of the market, and that is the only conceivable way in which the market can be manipulated, as far as I can see.

THE CHAIRMAN—That is a perfectly fair question and I will see that it is put in that form. You will probably see the answer in the newspapers.

WITNESS—May I ask another question? You have mentioned crop insurance. My opinion with regard to crop insurance is that it would be all right, if a minimum price could be established, provided always that minimum price would be such as would enable the farmer to pay the premium, because he would be the man who would have to pay the premium.

By the Chairman:

Q.—Would you be in favour of the premium increasing when the price goes up; that when the farmer is in a position to afford a good contribution to the insurance, that very moment he should make it, and on a sliding scale? I put this question to you because you have obviously thought about it and you have put your finger upon one of the important points, the minimum price at which he could afford to pay a premium. But supposing the price goes beyond that, would you be prepared to say he should pay a higher premium, in order to build up a fund? A.—Well, he could. May I ask another question? I have read in the paper that you have been looking for the short seller. Did you locate him? I would like to say this: my contention is that the short seller exists to a very large extent in the minds of the people, only. May I illustrate that in this way: Here is a man who wants to buy a thousand bushels of wheat at a dollar a bushel; here is a farmer who has produced the wheat and wants to sell it at a dollar a bushel. There is the purchase and sale to match each other. Now then, the man who bought that thousand bushels might hold it two or three days, or two or three weeks, and the price may have gone up five cents a bushel and he says: "This is a pretty good time to take my profit. I have $50 profit. I am going to sell that." Then some other man steps in and buys that thousand bushels of wheat. Another sale and another purchase has been made. Where is the short seller, if any? Now I understand we have millions of bushels in our warehouses here. The market fluctuates. They take profits and losses, whichever way it may be, I maintain our wheat has to be turned over and turned over. I don't mean that the market is at any time depressed to a very large extent by that, and if it is, it would be to the best interests of the producer; for this reason, that no man but a fool would sell wheat short, only if in his opinion the price was above the actual value of the wheat. Now then, if he sells 100,000,000 bushels and if the price slides down, naturally he would have to buy another 100,000,000 bushels again, so in that way he acts as a cushion both ways.

THE CHAIRMAN—Thank you very much.

WITNESS—May I say, for the benefit of the Press, that I represent no one but H. T Hanson.

A. J. McAULEY (called).

By the Chairman:

Q.—Are you a farmer? A.—I am president of the United Farmers of Canada, Saskatchewan section.

Q.—How long have you farmed? All my life.

Q.—That is the answer I got from a lady. How many years have you farmed? A.—I have farmed twenty-five years.

Q.—Will you tell us what your answer is to our question? A.—I have a memorandum here, representing the farmers of this province, which I feel that I should present to you, of the views of those different farmrs in this organization.

Q.—You are going to hand us your document? A.—Yes.

Q.—Representing the views of the farmers of your organization? A.—Yes.

Q.—How big is that organization? A.—The number of the organization is over 30,000.

Q.—Does it represent their views by majority, or by committee? A.—By a huge majority.

Q.—Has it been put to them all? A.—Yes.

Q.—By definite question? A.—Yes.

Q.—Will your memorandum give the questions put? A.—Yes.

Q.—And summarize the answers? A.—Yes.

By Mr. Commissioner Brown:

Q.—How many farmers are there in Saskatchewan? A.—There is somewhere about 100,000.

Q.—So this is thirty per cent. simply? A.—This is the responsible organization in the Province of Saskatchewan.

By the Chairman:

Q.—Does it represent the small farmers, or the large farmers, or about even? A.—It represents about even.

Q.—So it represents a proportion of thirty per cent of farm lands, as well as that number of farmers? A.—Well, it might represent more than that percentage of farm lands that you have mentioned.

By Mr. Commissioner Evans:

Q.—When did your organization start? A.—The organization that I represent was established back in the year of 1908.

Q.—Not in this form? A.—Not in this form, no. It has been merged in 1927. In that merger was the United Farmers of Canada and the Saskatchewan Grain Growers.

By the Chairman:

Q.—What is the main object of this association? What does it do for the farmers? A.—The main object of the association is to organize their ideas. We have got to deal with many kinds—the Saskatchewan Wheat Pool, Livestock Pool, Poultry Pool——

Q.—It organizes opinion? A.—Yes.

Q.—Does it do anything else besides that, in the way of market services, statistics, or anything else? A.—It is simply an educational organization belonging to the farmers.

Q.—Is it an educational association that gets any education from the outside, or do they educate each other? A.—Education from the outside, and opinions that are built up with the farmers themselves from their own experience.

Q.—Does it set out to represent any particular view? Are there any rules and regulations and, therefore, those who join may be regarded as having one particular point of faith? A.—Absolutely.

Q.—Would you call it a political association? A.—Up to the present year it has not been.

By Mr. Commissioner Evans:

Q.—But now? A.—At the present time it is being decided.

By the Chairman:

Q.—Is the kind of thing it seeks information of questions of policy, of what the government should do; or does it discuss what kind of wheat should be grown? A.—It discusses every angle belonging to the farmers of Saskatchewan; what the government should give in the way of legislation, and also the different methods of production.

Q.—Technical farm questions, as well as questions of policy? A.—Yes.

By Mr. Commissioner Evans:

Q.—Is it right that this year you have undertaken to form a new political party in this province? A.—Yes, it is understood. It has to be decided by the rank and file of the members of the organization.

By the Chairman:

Q.—Does it exercise any direct influence by supporting particular candidates for the local Legislature or the Dominion Legislature? A.—It has not up to date.

Q.—Well, I think we are ready to take your document, if you will hand it in. A.—Will I read it? I have also some letters from people who know I am before the Commission today.

(Document referred to marked Exhibit 32.)

Q.—Now will you read it?

WITNESS (reading)—Memorandum for Royal Commission inquiring into the Trading in Futures sitting at Regina, April 17th, 1931, presented by United Farmers of Canada, Saskatchewan Section, Ltd.

It is a statement of fact that the agricultural industry is by its very nature subject to influences largely beyond the control of those engaged in making their living off the land. Many instances of this nature could be pointed out had we time, but it is only necessary to give thought to recognizing this as being a fact. That being the case, it is even more essential that those factors which are controllable should be eliminated without delay.

It is obvious that no industry could successfully function, under the conditions which agriculture has to face. One can readily see that a railroad whose freight rates violently fluctuated, as do the wheat prices from day to day, could not continue in business.

As a farmers' organization, we are more concerned with the collective welfare of agriculturists rather than with the financial position of one agriculturist as against another. We are interested, primarily, in one matter, and that is, taking wheat as an example, how much wealth does the sale of actual wheat into either the domestic or the world's legitimate markets bring back into the hands of the producers in Western Canada.

We are interested in seeing that the markets respond only and as near as possible to the legitimate influences of the natural law of supply and demand. Only under these conditions can the producers be guaranteed a price in conformity with legitimate market conditions.

We would like to point out that the original source of all money that the producer gets for his wheat (aside from bran and shorts) is that of the consumer of bread. All services rendered between the producer and consumer do not or should not add or detract from that amount of money other than reasonable charges for the various services performed. If we are correct in assuming that all money claimed by the producer for wheat finds its origin in the consumers' "bread dollar" then we submit that no justification can be found for the entire lack of relationship between the prices paid by the bread consumer and those received by the wheat producers. As an illustration of this entire lack of parity may we submit the following information.

Price of Wheat	Year	Canadian Bread Prices	British Bread Prices
$1.21	1914-15	4.6c per lb of bread	3.7c per lb. of bread
$2.22	1917-18	7.7c. " "	4.5c " "
$1.46	1925-6-7	7.6c " "	4.7c " "
$1.17	1928-29	7.7c " "	4.2c " "
$ .76	1930	7.3c " "	? " "

By the Chairman:

Q.—Would you explain these percentages. Are they percentages per pound of wheat? A.—Cents. We believe that this clearly proves that between the producer and consumer there are influences which cause violent fluctuations in price levels. We believe that these violent fluctuations are in a large part due to public participation in "futures." It is further our belief that the future of so great an industry as agriculture cannot be allowed any longer to rest on the whim of a gambling public whose knowledge of the commodities involved possibly does not carry them so far as to know the difference between wheat and oats. The great weakness in depending on public support is that it comes on a wave of mass psychology. It is there in overwhelming and undesirable support as in the years 1925 and 1929 and is conspicuous by its entire absence as in the year 1930. The speculative public has no medium through which it can judge futures marketing tendencies other than by way of the daily Press and market quotations. Commission merchants naturally cannot flourish under stable price conditions. They are interested naturally in fluctuating prices. These people at the same time are the source of information that the speculative public must largely depend on and as an illustration of the influence of such biased information may we refer to an advertisement of McBean Bros. which appeared in Saskatchewan farm papers in September, 1929, reading as follows:

> "Ship your grain to McBean Brothers. Crop conditions the world over appear to be unsatisfactory this year, so much so that we consider higher prices warranted than those prevailing. It is our opinion, given after careful study of the world conditions, that our wheat should be worth today $2.00 per bushel, with considerably higher prices later on.
>
> "Assuming that importing countries take 850,000,000 bushels, and European crops this year are short of last, we have every indication of a shortage of supplies before another crop has been harvested. For this reason we look for wheat to sell at $2.25 per bushel, barley $1.25 and oats 95c."

By Mr. Commissioner Evans:

Q.—You haven't any Pool broadcasts in there, have you? A.—No. Then again, just before I leave that, the question was this morning, whether McBean Brothers were advancing that as marketing agents. They are today in the bond system as well.

As an educational farm organization, which has for many years fostered the building up of co-operative marketing associations, we submit to Your Honor that it is the duty of society to so organize itself as to render to the individual goods and services in proportion to his contribution to the whole. The conditions under which we, as farmers, are laboring are not conducive to this end, in that one man may easily secure $1.40 for his wheat and another man across the road who has produced an equal amount of wheat of an equal grade may only get 60c, whereas the service performed by each individual may be identical with the other.

On the other hand, and this is what is objectionable to us, we have the speculator who enters the market and buys and sells for future delivery whether or not there is any actual wheat on hand. His transactions are on paper only and by his operations the crop in any one year has been known to be sold many times over. We consider that this type of trading in futures is criminal, and should be forbidden by law. We object to speculation in foodstuffs as being unmoral and cannot urge upon this Commission too strongly to endeavor to draw the line between legitimate trading in actual wheat and speculative

trading in paper wheat. We are of the opinion that speculative marketing must go and the control of the marketing of our wheat must be placed under the control of the growers, and we do not anticipate any difficulty in dealing direct with those who are interested in the purchase of actual wheat for food consumption.

We believe that those who favor trading in futures as practised by Grain Exchanges will find it difficult to convince this Commission that there has ever been any monetary gain to the producer as a result of their methods, but even if they could show that an odd individual has benefited we would still voice our objection to speculation in marketing for reasons which have already been given.

In support of my memorandum I will ask leave to file correspondence, resolutions, and telegrame from reliable sources.

Your Honor, since I have come into this meeting today, I have had telegrams coming from different sources throughout this province, knowing that I was coming before you today, and they are appealing for support, and they wish me to express to you their wish out in the country, as growers, and I have letters. First I will read a letter. I will not read all the letters, I will just simply read two of which is an instance of the belief of the people out in the province of what should be done.

This comes from the rural municipality of Eldon, where there is a great number of farmers, made up entirely of farmers and business men in distribution.

> "I wish to express to you my opinion that the trading in futures in the wheat business is detrimental to the best interests of the farmer who produces the grain. I am firmly convinced that the fluctuations in the price of wheat caused by this trade is not warranted solely on account of the supply and demand. Prices change so rapidly from one day to another and we know that the supply has not changed.
>
> "In addition to the above I know several farmers of this municipality who have lost considerable sums of money so that they are now financially embarrassed through trading in options.
>
> "I believe that no one should be allowed to sell wheat unless they hold certified certificates for the wheat they sell"

By Mr. Commissioner Evans:

Q.—In that case, could they sell on the futures market? A.—The question is——

Q.—If they hold actual wheat, if they owned actual wheat; does that mean that they could themselves sell on the futures market? A.—He does not believe in a futures market at all. Another comes from one of the biggest stores in the province in the rural sections.

> "Being aware that you are very much interested in the present investigation re the futures trading in grain, we wish to say that this practice is fairly general amongst many of the agriculturists of this district, and particularly during the present depression, when farmers are making desperate efforts to offset the deplorable prices being obtained for their products.
>
> "In cases where agriculturists are financially in a position to speculate, the practice might be justifiable, but the danger we see lies in the same machinery being as open to the struggling as it is to the wealthy farmer.
>
> "There is no doubt in our minds that monies rightfully owing to the municipalities, storekeepers, bankers and insurance companies have been used in the speculating in grain futures. This not only detrimentally affects the individual, but has a marked disastrous effect on the crelit of the whole district.
>
> "In our opinion the general opportunity at present in existence, to speculate in grain futures, should be eliminated, if it were for no other reason than as a protection to the farmers themselves.
>
> "Where we have the knowledge of speculation being practised by any of our people, we can assure you the credit of the individual concerned is nil."

I have several I am not going to read: numerous letters. I have resolutions from our organization and resolutions which are decided in local lodges, resolutions from our local councils, resolutions from our district conventions, and the Central Convention of the United Farmers of Canada, in the list you have yourself, in which I have only included for the last year. Again I have telegrams from the Fielding district, one of the best districts in this province:

> "Farmers this district lost twenty thousand in futures trading nineteen thirty, favor futures trading be confined actual transactions in grain."

By Mr. Commissioner Evans:

Q.—Well, there is a case where they are going to allow some kind of trading in futures. A.—I have another, Your Honor, that:

> "United farmers of this district are convinced that having to depend on trend of speculation determining grain prices is disastrous as it does not represent consumptive demand."

I have another coming from Marshall, Saskatchewan, as follows:

> "We, the Marshall Local Council of the United Farmers of Canada, disapprove of trading in grain futures as carried on by the Winnipeg Grain Exchange as it works to the detriment of the grain producers."

Another telegram coming from Whitewood, Saskatchewan, east of Regina here, district number seven:

> "District number seven supports you in your stand against trading in all grain futures. All lodges in this district also wish me to inform you that they too are against trading in grain futures."

That is one from a local council. The others are from local lodges in the province.

(Memorandum presented by United Farmers of Canada was put in and marked as Exhibit 32.)

By the Chairman:

Q.—Are you going to file those with the Commission, for us to read? A.—Yes.

(Letters and telegrams were put in and filed as Exhibit 32A.)

Q.—Could I just now ask you one or two questions, just to establish the status of the document you have been reading? A.—Yes.

Q.—Has this document been submitted to thirty thousand farmers? A.—That has been the decision of thirty thousand farmers out of our convention at the last—in February.

Q.—How was it put to them; was it put to them as a document? A.—It was put to them in the form of a resolution, the resolution of which I haven't read at the present time.

Q.—I want to know how much the thirty thousand farmers are responsible for the actual contents used in this document. A.—They are responsible to the extent there has been a decision, a vote in our organization.

Q.—Have they all seen this document? A.—They haven't seen that prepared document.

Q.—You put to them the question and they answered the question? A.—Yes..

Q.—And after receiving the answer, someone has prepared this document? A.—Yes.

Q.—But you could not say that every one of the thirty thousand farmers has seen this document? A.—No.

Q.—Could you tell us what the question was that was put to these thirty thousand farmers? A.—You have a resolution in your hand. Now this was passed at the last annual convention, at the time of February 25th to the 28th.

> "Whereas market manipulators, grain speculators and the Grain Trade in general persistently claim that the law of supply and demand controls the price the farmer receives for his grain; and whereas the flooding of the market with fictitious grain (that is grain that does not exist) must nullify said law of supply and demand; Therefore be it resolved that we condemn the present system of dealing in futures and instruct the Board to appoint a committee to work jointly with the Wheat Pool to provide amendments to the Criminal Code which will prevent the present practice of option trading."

I have included also that portion of the Criminal Code in this letter.

Q.—Was that resolution passed in that identical form in all your lodges? A.—Yes.

Q.—Have you any record of the attendance at the time these resolutions were put? A.—It was dealt with in local lodges; then from the local lodges to our local councils, and then from our local councils to our district conventions, then from our district conventions to our central convention, and I may that all the members of our organization have a thorough knowledge of the decision that has been arrived at on our central convention.

Q.—I just want to trace this thing from the beginning. Unless they are put before the meetings we are going to be—— A.—Yes.

Q.—To all the members? A.—Yes; of all local lodges.

Q.—Do you know what percentage of the whole thirty thousand farmers attend these lodges? A.—I cannot say, for the simple reason that as president I am not with the local lodges.

Q.—You have not taken any statistics of the members that were present? A.—I would say that a big majority of our members, and all members have the knowledge.

Q.—They all have the knowledge that the resolution was given, and the big majority attended the lodges? A.—Yes.

Q.—Now can you tell us by what majority the resolution was passed? A.—It was passed unanimously in all district conventions, and unanimously in the central convention of the United Farmers of Canada, in Saskatoon.

Q.—So that, if there were any of the thirty thousand farmers that did not agree with this, they were not present at the meetings? A.—There would only be a very small percentage that may be inconvenienced in some way.

Q.—And of those that were present, you say they all voted for this unanimously? A.—Absolutely.

Q.—Now on this resolution you have built this memorandum? A.—Yes.

Q.—Now who else besides yourself knows about this? A.—The secretary of our organization and the vice-president of the United Farmers of Canada.

Q.—How many people? A.—The secretary of our organization and the vice-president of the United Farmers of Canada.

Q.—You have, on the strength of this resolution, drawn up this? A.—Yes.

Q.—I am not hostile, but I am only trying to see whether it is representative? A.—Yes.

Q.—And you have on the basis of this resolution drawn this memorandum? A.—Yes.

Q.—And, in your behalf, this is a fair deduction and elaboration from that resolution? A.—Absolutely.

Q.—Is that what you think?

By Mr. Commissioner Evans:

Q.—Have you ever made any representations to the Pool against using the futures market? A.—We have discussed it with them.

Q.—You haven't presented any such resolution? A.—No.

Q.—Not through your own organization? A.—No, it hasn't come up. The opinion from our people in the province is to grow from the bottom up; from the rank and file to our local lodges, from our local lodges to our local councils, from our local councils to our district conventions, from our district conventions to our central convention.

Q.—But you haven't been going through that process with regard to your organization? A.—That has been the process of our organization.

Q.—But my question was whether you had made any formal resolutions to the Pool against the Pool using the futures market? A.—We have not from our organization directly.

Q.—But just with respect to the outside trading? A.—Yes.

By the Chairman:

Q.—What proportion of the thirty thousand members of your organization are non-Pool members? A.—A very, very small percentage.

Q.—Practically all belong to the Pool? A.—Practically all belong to the Pool.

Q.—And what proportion of them do you think deal in options and futures themselves? A.—A very small percentage, not a large percentage. I could not just say, but it is a small percentage, and I would say, if you want to nail me down to some percentage, I would say possibly fifteen per cent, or twenty at the most.

Q.—Would you think that the members of your organization deal less or more with futures? A.—Less.

Q.—Less than other people? A.—Yes; absolutely.

Q.—Now, the resolution that has been passed by these unanimous majorities at meetings, which were very largely attended, is in these terms. Do you mind telling me whether your members have ever had before them anything showing what the law of supply and demand is? A.—That has been very efficiently discussed.

Q.—I see that the whole resolution turns on the law of supply and demand. What is the law of supply and demand? A.—That is a debatable question at the present time, there is no doubt.

Q.—What do your members understand by it? What is the law of supply and demand referred to here? A.—Our members understand the law of supply and demand at the present time, and they understand it very well.

Q.—Well, what do they understand? A.—Well, that we have the supply and at the present time they are not getting the medium in between the actual price of the commodity and what the bread consumer has to pay.

Q.—Now that is something that is happening. What I want to know is, what do they understand by the law of supply and demand? If there is a law of supply and demand it must be capable of being expressed in words. What do they understand by it? A.—Their knowledge, their idea of the law of supply and demand is this: that they believe that there is demand at the present time for to accept, to purchase the supply on a basis other than what is being done at the present time, and they believe it is out of line entirely with the demand, that is for the commodity.

Q.—Is that a law? A.—Well, it is not a law. It is just simply a medium of purchase and selling.

Q.—Well, I want to get clearly in my mind what the average farmer, who has signed the resolution, really understands, because this goes to the root of the thing. A.—Yes.

Q.—And, unless I know what the farmers mean by the law of supply and demand, I don't know what the resolution is; so I want you to try and put in words, not now, but after the interval. A.—All right.

Q.—Give me after the interval what the average farmer means by the law of supply and demand. I do not want to try to take unfair advantage of you. Do not think of wheat at all; think of the law of supply and demand for sugar, or coffee, and tell me what they may mean by the law of supply and demand in relation to coffee. A.—All right.

The Commission then adjourned until 2.00 p.m.

By the Chairman:

Q.—I was asking you before we adjourned to give me some idea as to what was precisely in the farmers' minds when they passed this resolution, particularly with reference to the law of supply and demand, that "market manipulators, grain speculators and the Grain Trade in general persistently claim that the law of supply and demand controls the price the farmer receives for his grain; and whereas the flooding of the market with fictitious grain (that is grain that does not exist) must nullify said law of supply and demand; therefore, etc.," meaning, I suppose that the farmers agree that the law of supply and demand ought to govern the price the farmer gets, and that they endorse it, and that they want something that will give effect to it? A.—Yes.

Q.—Now, I must know what it is that they mean by this law of supply and demand? A.—As the farmers' opinion is in the country it is, (1) based on the necessity of the commodity the consumers would in general require. (2) The grower of that commodity could only in return according to the volume of production expect a price level. (3) Another factor which enters into the circle is the medium of money in circulation amongst the consumers to purchase the necessary commodity. (4) The fact is overlooked that the total purchasing power is governed by the total volume of production valued at current prices. And purchasing power can be increased only by increased production. Commodities pay for commodities; money is only a medium of exchange and all exchange is only barter. Demand and supply are therefore only reciprocal.

Q.—Let me see that. This, you say, is what the average farmer means by the law of supply and demand? A.—Yes.

Q.—First, it is based on the necessity of the commodity the consumer would in general require. (2) The grower of that commodity could only in return according to the volume of production expect a price level. (3) Another factor which enters the circle—what circle?—is the medium of money in circulation amongst the consumers to purchase the necessary commodity. And another is the fact is overlooked that the total purchasing power is governed by the total volume of production valued at current prices. Whose purchasing power? A.—The purchasing power of the consumer.

Q.—He has got a certain total volume of production. What is that, supply or demand, or what? A.—His production?

Q.—Yes? A.—The consumer in producing the many commodities he may produce enters into that.

Q.—In England we would say that the consumers produce twice as many yards of cotton, or twice as many boots, and what effect has that on the price of wheat? A.—It depends on the money that is in circulation that would make a price for wheat.

Q.—I am afraid I am still very vague as to what the law of supply and demand is in the mind of the farmer, or how it controls the price the farmer receives for his grain. Take the first item, "Based on the necessity of the commodity the consumers would in general require." A.—Yes.

Q.—Well, the consumers might require a very small amount at a high price, and a very large amount at a very low price? A.—Yes.

Q.—What do you aim at? A.—The idea is a price level.

Q.—Is the price level a cause or a result of the consumers' demand? A.—Price level to the farmer at the present time is not—the factor that enters into the supply and demand is the medium of exchange and at the present time is not in circulation to purchase the commodity, which at the present time has a depressing effect on price.

Q.—Say the market is the English market. You mean if they had more money your price ought to be more or less? A.—Ought to be more.

Q.—Then we ought to do something to increase the money that the Englishman has? A.—Yes.

Q.—What has that got to do with futures trading? How would having or not having futures trading make any addition to the money that the Englishman has got? A.—The fact is that money to buy is withdrawn from circulation, and we haven't got any circulation.

Q.—Who has withdrawn it? A.—The monied interests. For instance, the farmer today in the country——

Q.—Look here, I am not talking about him, I am talking about the purchasing power of the English money. You said it wasn't that he made twice as much boots or shoes but that there is not enough money. Where has it gone? A.—That is the question.

Q.—That is the question I am asking you. A.—The monied interests have it.

Q.—Your complaint is not with futures trading, but with the monied interests in England? A.—The monied interests the world over.

Q.—Where does the money go when it is withdrawn? A.—It is hard to say.

Q.—When it is withdrawn it makes money scarce? A.—Yes.

Q.—When money is scarce doesn't that put prices up? A.—No, it doesn't happen to.

Q.—It puts prices down? A.—Yes.

Q.—You think, therefore, it is the withdrawing of money in England that is upsetting the law of supply and demand in this country? A.—Yes.

Q.—What has that got to do with futures? A.—It has some importance.

Q.—You say, "Whereas the flooding of the market with fictitious grain nullifies said law of supply and demand." What you say now nullifies the law of supply and demand is somebody withdrawing some money in England from Englishmen, so it is not futures trading? A.—Maybe not, but in the whole system of marketing today money is withdrawn from the consumer to pay for the production, let us say futures, or whatever it may be, today we haven't got the money in circulation to stabilize the market.

Q.—I am trying to take your farmers' idea, to see what it really means, on which he bases this protest, because I am taking the protest seriously and I want to understand it. Take the demand, I understand it to be something in England, for example? A.—Yes.

Q.—And that something in England, and the demand there, is effective not by what he is producing, although you said that is the final purchasing power, but by some money in circulation having been withdrawn? A.—Yes.

Q.—So this resolution is not aimed at the system of futures, it is aimed at the banking system in England? A.—Partly. When the Englishmen haven't got the money to buy their supply.

Q.—Is that same sort of thing happening in other countries? A.—Yes.

Q.—So there must be a sort of conspiracy on the part of the monied interests in the world to make it impossible to sell Canadian wheat? A.—To some extent, yes.

Q.—Would that not be effective if there were no futures? Wouldn't that exist just the same? A.—It could exist just the same.

Q.—Well, has futures got anything to do with it? I am trying to see where futures are connected with the demand in England? A.—In the handling of futures our people in the province of Saskatchewan here believe that there is such manipulation in the futures dealing that they are not getting the amount of money back in return to the grower, as to what the value of the wheat when milled is. There is too big a spread. For instance, I placed on file this morning a statement showing that in 1928-1929 when wheat was the price of $2.25, flour in Canada was at a value of 7.7, and yet when wheat was 79 cents in 1930 we averaged on flour almost the same figure.

Q.—You gave us bread, didn't you? A.—Yes.

Q.—Is there another disturbing factor entering in between bread in England and wheat as sold by Canada? Is there any necessary connection between them? There may be all sorts of things, of course, like the cost of distribution, how many bakers' shops we have got, the cost of freight and things like that. Isn't the connection rather remote? A.—Those figures were in Canada.

Q.—But you gave me British prices too? A.—Yes.

Q.—What is it that is depressing the British price of bread? A.—It is hard for me to answer that.

Q.—I come now to the question as to whether it is the same kind of bread. Is there as much Canadian wheat in it? A.—No.

Q.—Is there as much wheat? A.—No.

Q.—Is it a different type of wheat? A.—To some extent.

Q.—Is there any real comparison between the price of bread in England and Canada? A.—Yes.

Q.—Does it cost more to distribute per loaf in Canada than it does in England? A.—That part I don't know.

Q.—In fact, there are a lot of different factors? A.—There are some factors.

Q.—A lot of them? A.—Not any more than there would be in Canada, I would not imagine.

Q.—There are a lot of factors that are different than in Canada, I would imagine? A.—I can't answer that.

Q.—You wouldn't expect the price of bread in Canada to be necessarily the same? A.—We wouldn't expect it as high in Canada as it is.

Q.—Why not? A.—For the simple reason we are near our own production.

Q.—You think the price of bread is too high in Canada is too low? A.—Too high.

Q.—Then the farmers are getting too good a price for their produce in Canada? A.—Bread is too high in accordance with what the producer gets for his wheat.

Q.—You have a grievance, not against the monied interests in England, but against the distributing, baking and flour making fraternity in Canada, is that your idea? A.—Yes, too big a spread for the value the producer is getting out of it.

Q.—Is there any difference allowed in freight for grain sold for Canadian bread and English bread? Does the farmer say I will take so much if you are going to use it in Canada? Does the farmer say he will sell it at one price if it is going to be used in Canada and another if it is going to be used in England? A.—No, the farmers do not say so.

Q.—So he is not affected by the difference of the price in the two countries? A.—No.

Q.—Somebody else is affected? A.—Yes.

Q.—Coming back to the law of supply and demand, I want to see what it really is the farmer has back of his mind, what he is troubled with. So far you have told me, first of all, it is something on the side of demand, something to do with production. Then

you say, no, it is something to do with the money he has got. I would like to see where that is affected, as to whether there is a Winnipeg Grain Exchange or not. Can you explain to me what is the connection between the amount of demand that can be exercised in England, and the existence of the futures market? A.—At the present time our farmers here in the province of Saskatchewan are not interested in the futures market, as has been said from their different decisions in their different gatherings, for the simple reason that they do not believe in producing. It has not been a benefit to them to produce, and sell for future delivery. You find very few farmers in Saskatchewan selling, for instance, in August-November delivery for the simple reason that the producer is not absolutely sure of his production. For instance, in regard to climatic conditions he has got to contend with.

Q.—What is your idea, that the farmer should produce and sell it straight away, or be able to hold it? A.—He should be able to hold it and allow it to go out at any time when he thought right. At the present time our farmers in the province of Saskatchewan are forced to some extent by financial troubles amongst themselves to dump their wheat on the market, and in so dumping the wheat on the market they take the low price. Those farmers that are distressed in that way, that have to dump their wheat on the market, they do not get the returns that naturally should come to them, if they were in a marketing system such as we have got in the province.

Q.—You think the farmers ought to have enough capital in order to hold his wheat without being forced to sell it? A.—Absolutely.

Q.—Where is he to get the capital? A.—He will have to borrow it.

Q.—Who is to bear the risk of the change in price? A.—The organization which he would use to carry his wheat.

Q.—You think he can have a rival market of regulating prices, not through futures, which will enable him first of all to borrow money on his wheat, and hold it, and secondly to realize a higher price at a later date, is that right? A.—Yes, more evenly placed on the market.

Q.—There would be more of his wheat placed on the market in February, March and April than there is now? A.—Yes.

Q.—What will be the price then, lower or higher than now? A.—It has usually been higher.

Q.—Higher when? A.—In the later months.

Q.—If he has got to put a lot more on the market in these months it would be lower? A.—No, he would spread it evenly over the months of the year.

Q.—How would he spread it evenly if he holds it? A.—He would only supply as the demand would require at a price equitable to the farmer, to take care of his cost of production.

Q.—You mean if the demand in England were even, and the demand of the millers were even, then the supply would go out even? A.—Yes.

Q.—And the system of futures does not enable it to do that? A.—No.

Q.—But some other system of regulating amongst themselves would? A.—Yes.

Q.—Of course, this resolution does not say that, it simply finds fault with the system of dealing with futures? A.—Yes.

Q.—And makes a recommendation that is outside of our remit, and I need not bother with it. It may be my stupidity, but I still can't get what the farmer really means by the law of supply and demand, because this statement you made is like no statement of the law of supply and demand that I have ever read. But I haven't asked you to produce an ideal law, I have only asked you what was in the farmers' minds, as the rest of the resolution follows, because the rest of the resolution doesn't touch any question of total purchasing power, total volume of production, money in circulation in England, and I don't see what they have got to do with futures. So I am still very vague in my mind as to what this farmer really means by this resolution. Perhaps you will tell me this: have any of your farmers since the resolution was passed dealt in futures themselves, or collectively, through any agency? A.—Very, very few in 1930. We have had very few farmers deal in options in 1930, compared with 1929.

Q.—Why do they deal in a market which they think is wrong? A.—They have not in the past known whether it was wrong entirely or not. They are induced to sell their grain in many cases, and then turn round and buy futures, to get by the carrying charges, which has been used as the idea of going into the futures market.

Q.—That is a new idea to me. They buy futures to get by the carrying charges? A.—Yes.

Q.—How do they get by the carrying charges? A.—They sell their wheat outright at whatever price it may be in the fall. Then they will possibly buy May futures, and by buying May futures they get by the carrying charges.

Q.—Is the difference between the present price and the future price more than the carrying charges? A.—It all depends.

Q.—Is it much more, or much less? A.—It all depends. In the past year, for instance, 1929, many of our farmers bought these futures and lost, not alone in their futures, but lost their wheat, their whole investment.

Q.—How did they lose their wheat? A.—They kept on covering the futures to safeguard themselves.

Q.—But they had already sold their wheat for cash? A.—Yes.

Q.—And having done that, they could have stopped, but they chose to go into the futures market, and buy futures? A.—Yes, with the expectation of carrying their wheat into that period when they would be able to get bigger prices.

Q.—And they lost? A.—Yes, they lost.

Q.—Now, if there had been no futures market, they would have sold their grain for cash and they would not have been able to go into futures and lose their money? A.—Yes.

Q.—So you object to the futures, because it is a temptation to speculate? A.—That is it.

Q.—There is nothing in this resolution about it being a temptation to speculate. It is all about the law of supply and demand and I am trying to see what the law of supply and demand is, in his mind. I know what it is. I want to know what he thinks of it and you have not enlightened me a bit yet. I have not the vaguest notion how this resolution follows from the laws of supply and demand. It doesn't seem to have anything to do with it.

Well, we still have a lot of witnesses and I don't want to bother you any further. If you have anything further to tell us about it, you may put it in writing. I was prepared to be very much impressed by the opinion of 30,000 farmers, but I can't be impressed if I can't understand it. Thank you, Mr. McAuley.

JOHN MILLER (called).

By the Chairman:

Q.—Are you a farmer? A.—Retired farmer.

Q.—How long were you a farmer? A.—Thirty-five years.

Q.—Now you know our question. It relates to the influence of the dealing in futures upon the price received by the producer. Will you tell us in your own language what you think about that? A.—Speaking for myself, not representing any organized body and saying what I believe is in the minds of a great number of farmers, I think that the fact of an organized group having the power to depress or increase prices is not a healthy situation.

Q.—Is there such an organized group of that character? Does that organized group exist? A.—Did I use the words "organized group"? I should have said, individuals out of an organized group.

Q.—Individuals out of an organized group who have the power to depress and raise prices? A.—Yes.

Q.—Who would they be? A.—Individuals in the trade.

Q.—What kind of trade? A.—Grain. Shortly, the Grain Exchange.

Q.—Individuals within the Grain Exchange have the power to depress and raise prices, and that is bad for the producer; is that your point? A.—Yes, that is bad for the producer.

Q.—Well, how do they do it? How do they raise or depress prices? A.—By uniting their power and either buying or selling large quantities.

Q.—Do they in fact unite and act together in that way? A.—That is my belief.

Q.—Have you any evidence of it? How have you come by that belief? A.—I have nothing that I can place my finger on to prove it, but I have been connected with the farmers' organizations for a great many years and, like Mr. Fancher, been some years in the House of Commons and on the Agricultural Committee, where a great deal of evidence was taken. I have also been connected with a grain commission, and from various sources I have arrived at the conclusion that they have the power to depress and increase prices.

Q.—Well, I am not saying it is not so. I am inquiring and I am very anxious to see if we can get any evidence of how they do it and how they succeed in carrying it through. If you can help us, I should be very much obliged. At the moment it exists only as a suspicion, or a feeling that something happens. I have not seen any evidence that people are getting together and saying, "Now let us put the prices down this morning," or "let us put them up." Supposing one half of the Grain Exchange got in a corner of the room and said, "Let us put the price up to day", and in another corner of the room another group said, "Let us put it down." A.—If the bears and bulls were of equal strength, I suppose it would stay stationary.

Q.—Would you suggest it would be a particular group one day, bulls one day and bears another; or that there are different cliques in the Grain Exchange that act together? A.—The line of demarcation would shift from time to time.

Q.—So a man might one day be with one set of fellows and another day with another set? A.—Yes.

Q.—Is there any chance of a man promising to be on one side and, as matter of fact, act with another? A.—Well, I have no knowledge of that.

Q.—Collective action does not work unless people are very honest with each other—honour among thieves, so to speak—unless they all stand by their arrangement, collective

action would break down. Everybody would be upset, if people did not stand by their word? A.—Mr. Commissioner Evans would know more about it than I do.

Q.—Do you think there are organizations, cliques, that always work together, or whether a man says, "I am going to find a lot of people to-day and say 'you are a bull?', 'Yes', 'Then, let us all bull together'?" A.—I think that pretty well describes it.

Q.—Well, how do you know. I have just drawn a picture to see how it works. You think it works that way? A.—Yes, I think it works that way. As I said before, I can't place my finger upon any particular evidence to prove absolutely that it does take place, but pointing to our experience of 1929, when the price of wheat, through speculation, I believe, largely, increased to about $1.80 a bushel and then fell away—for a length of time it was far above export value.

Q.—Were the only people who thought it was worth that dealers in futures. Were there not people holding their wheat for a rise. Were the farmers not holding on, feeling that the price was going to be good? A.—Oh, many of them.

Q.—So the price was not created only by bulls in the futures market; it was also increased by people withholding their stocks. A.—I would point out, Mr. Chairman, that the members of the Grain Exchange, through their weekly letters to their customers, sent broadcast in great numbers throughout the country, have an opportunity to leave that impression—leave the impression that the price of wheat is going up, or going down.

Q.—So it is not so much people getting together in the Grain Exchange daily and making little compacts or big compacts with each other; it is psychology induced by circulars? A.—I would think so.

By Mr. Commissioner Evans:

Q.—You would not include in that the Pool literature? I think every one would be very glad to have the Pool submit copies of radio talks and speeches made at that time, and their own publications with respect to the price of wheat; and, no doubt, they would also like what was put out by the Department of Agriculture in the United States. All we have before us is one trade advertisement, and I think the Commission would appreciate having submitted to it the other side? A.—I would point out that the trade has a chance of personal gain; the Pool have not.

MR. BIGGAR—I don't want to intervene, Mr. Chairman, but if the Commission is going to extend its inquiry into a comparison of two entirely inconsistent systems of selling grain, that is a completely different question from the question we have been discussing for the last five days, and my impression is it is a question that would require for its proper consideration as many weeks as the Commission has hours for the consideration of the question as it is submitted to them, as I have understood it to be announced. Now I am perfectly satisfied to accept the challenge that has come from time to time with regard to Pool conduct, but if that challenge has to be accepted, I would like to know definitely, in order that I may take an attitude before the Commission entirely different from what I have taken so far.

MR. COMMISSIONER EVANS—You have no objections to him putting in partial evidence on the other side? I have heard no objection to his evidence.

MR. BIGGAR—It is certain questions put to the witness that I am objecting to.

MR. COMMISSIONER EVANS—You are objecting to having complete evidence put in on a question upon which partial evidence has been given?

THE CHAIRMAN—I am fully alive to the possibilities of considering the whole range of Pool activities. It is outside of our remit. And I am, therefore, alive to the desirability of not embarking on a partial enquiry which cannot be answered completely, and I do my best to keep the witnesses within bounds, but I cannot possibly sometimes stop one of the witnesses slipping into the Pool.

MR. BIGGAR—I simply suggest that the witness should not be pushed into the Pool.

MR. COMMISSIONER BROWN—That, I think, represents the case. We gave four days to the Grain Exchange. I think a day or two could be given to the farmers out here without too much haggling.

THE CHAIRMAN—We cannot prevent altogether some reference to the Pool, because the wheat production is divided into Pool and non-Pool. I don't want any discussion of what the Pool, as the Pool, does, or its policy, but I am entitled to know what individual farmers who happen to be members of the Pool—what they do as individuals, what literature they get that influences their minds, wherever it emanates from. So your objection does not touch the particular point raised by Commissioner Evans.

MR. BIGGAR—I would have no objection if he was asked for the literature which affected his mind, but the question assumed the existence of literature which, as far as I know, does not exist and never did exist.

THE CHAIRMAN—Then that should come out in cross-examination. You are at liberty to put the question; does that literature exist. If we get into the Pool, we will all go together.

By the Chairman:

Q.—Now, will you tell us, Mr. Miller, whether the minds of your farmers have been influenced by reports and circulars from outside? A.—That is my contention.

Q.—And has anything come from an organization I know nothing about called the Pool? A.—Not being a member of the Pool in very recent years, not being a contract signer, because I have had no wheat to sell, I don't know. I could not answer that question.

Q.—You have not any positive evidence to put in of the nature of the information received by individual farmers? A.—What I have referred to which has been received by individual farmers?

Q.—You have not positive evidence of the nature of the information received by individual farmers which affected their attitude towards selling grain, or buying futures? A.—Well, the information I referred to was weekly letters from the various grain firms, which frequently say that grain is likely to increase in price.

By Mr. Commissioner Evans:

Q.—Does it not sometimes increase in price? A.—It does.

By Mr. Commissioner Brown:

Q.—Is that objectionable? A.—It depends whether wheat goes up or down.

By the Chairman:

Q.—You object to information which does not always prove to be right? A.—Yes, sir.

Q.—Any prophet that does not come through has got to be beheaded—a very good rule.

By Mr. Commissioner Brown:

Q.—Do you think there is any connection between the sending out of circulars of that kind and the subsequent depression or rise in price against the proclamation? A.—I would not say positively that there is.

By the Chairman:

Q.—Supposing you had no Grain Exchange and, therefore, none of these what you imagine to be cliques or compacts within it with the power to depress or increase prices, would it be possible for any other organization to depress or increase prices? Supposing you had an organization of farmers, could they by concerted action increase or depress prices, if they were a pretty powerful organization? A.—It is within possibility, but it is very far fetched. They are scattered over a broad area. Those in the grain trade are one family, so to speak. They can do it readily. The farmers, scattered about the country, would find it most difficult.

Q.—Have you ever known any organization of farmers try to keep prices at any particular figure? A.—No.

By Mr. Commissioner Evans:

Q.—Were you a member of the Pool in 1926? A.—I think I dropped out about that time.

Q.—You didn't protest against the doctrine laid down at the meeting at St. Paul in 1926, saying what farmers could do to increase prices? A.—That is the World Pool?

Q.—Yes. A.—Well, I have never agreed with that doctrine.

By the Chairman:

Q.—I would like to know whether anybody in the community, whether farmer or consumer, would be able to get together for the purpose of putting up prices or putting them down? A.—I have no knowledge that they have ever done so.

Q.—Supposing all the wheat eating people in England were to band together and say "We are not going to eat any Canadian wheat whatever unless it is sold at fifty cents," that would be an organization for the purpose of depressing prices; you would admit that, wouldn't you? A.—Yes, I think I would.

Q.—And you would equally admit that if any organization of farmers at this end said "We won't sell anything to the bread consumers unless they pay us $2.00", would be an organization for the purpose of increasing prices? A.—Yes, I would.

Q.—So all organizations for the manipulation of prices are, no doubt, wrong? A.—Yes.

Q.—And you think the Grain Exchange has the power to influence prices? A.—I believe they have.

Q.—And you think they do it by these sections of the people deciding to act together? A.—Yes.

Q.—Do you think those people decided to act one way by daily decisions, or do they make a compact and stick to it for three or four months at a time? A.—I have not any definite knowledge, but I would think they would be more likely to change from one position to another in less than four months.

Q.—It would be very tempting to the members of the band to split up and get ahead of each other? A.—Yes.

Q.—Do you ever hear complaints that these compacts are made and the people are not faithful to them? A.—No.

Q.—If they once make up their minds to do a thing, they all stick to it? A.—I could not say that. I remember evidence in Winnipeg some years ago in regard to compact among members of the Exchange, and I remember one member was asked how it worked out, and he said: "Not very satisfactorily. We always found that we lost."

Q.—That is to say, they made an agreement among themselves to pull along a certain line? A.—Yes.

Q.—And they lost, either because there were defections in their ranks and people broke away, or because their judgment was wrong; which was it? A.—Well, he didn't give any explanation. He just made that remark.

Q.—You inferred there had been a collective compact? A.—Yes.

Q.—A collective compact among members to act together? A.—Compact to act together, yes.

Q.—A compact to act together for a particular purpose? A.—Yes.

By Mr. Commissioner Evans:

Q.—You don't remember what the compact was, or what was the occasion? A.—No, I don't remember now. It is twenty odd years ago.

Q.—Have you any other information you can give us besides these suspicions? A.—I believe at a former session the matter was brought up of the fluctuations of grain before the Grain Exchange came into existence and afterwards.

By the Chairman:

Q.—I would be very glad to hear about that. A.—I was selling grain many years before the Grain Exchange came into existence and, if my memory serves me correctly, the prices varied from 36c.—I well remember the lowest price—I am not so sure of the highest, but I think it varied for a term of many years from 36c to 90c.

Q.—That was before the Grain Exchange? A.—Before the Grain Exchange came into existence.

Q.—And what happened afterwards? How would you compare the fluctuations? A.—The fluctuations since that time, I believe, have been as great as, if not greater than they were before.

Q.—And you attribute that to the futures market? A.—I believe it is a factor, yes.

By Mr. Commissioner Evans:

Q.—You have no figures to give us; that is only an impression in your mind? A.—Yes, that is the impression in my mind.

Q.—We were told by some highly respectable and experienced men whose lives extended into both periods, that the fluctuations since have been lower? A.—That is not my impression. My impression is that the fluctuations have been as great, if not greater, since the Grain Exchange came into existence.

By the Chairman:

Q.—I have made a note of your impression. What is your next point? A.—Reference was made this morning—I could not catch all that was said, but I believe reference was made to the Pool taking a hand in futures selling and buying futures. Now, as I said before, I am not a member of the Pool at present, but I believe, as in mixing, also in futures selling, while those two systems exist the Pool is compelled, in self defence, perhaps, to use them to some extent.

Q.—Because they were afraid otherwise of losing money, or because they wanted to gain money? A.—Well, here was the situation: When the price of wheat was up to $1.60 and $1.70 and on the export market it was worth $1.25, the farmer who was outside the Pool had the opportunity of selling his wheat and getting the cash at the higher price. The farmer who was within the Pool had to take finally a very much less price. That was a strong weapon that could be used against the Pool. Now I think it is generally conceded that a conflict has been going on from the early existence of the Pool up to the present time between the Exchange and the Pool. Now, this placed the Pool in a very embarrassing position. The general impression of the farmers at that time was that wheat was going up, or that it would maintain its present price. If the Pool had sold its wheat at $1.00 when it was $1.40 on the Exchange, there would have been almost a rebellion.

By Mr. Commissioner Evans:

Q.—Why didn't they sell it at $1.40 on the Exchange? A.—They couldn't.

Q.—Why not? We have had a great deal of evidence before us that there has never been a time when you could not sell cash wheat on the Winnipeg Exchange at the price of the day. A.—You mean to say that the Pool could have sold all their wheat at that high price?

Q.—Perhaps there might have been a slight movement down, but there was no day they could not have sold their cash wheat on the Winnipeg Exchange. That is quite different from holding it till they sell it at Liverpool. A.—They could have hedged?

Q.—They could have hedged their wheat. A.—How much?

Q.—At the level of the market every day. A.—How much wheat?

Q.—Well, they could easily have sold what they had. A.—Do you mean to say the Pool could have sold 100,000,000 bushels at that high price.

Q.—The price didn't stay high. The price was moving down, but whatever the day's level of the price was, they could have sold their cash wheat. I don't say that if they tried to sell 100,000,000 bushels in one day it would not have had any effect.

MR. COMMISSIONER BROWN—They could have filled whatever orders came in.

MR. COMMISSIONER EVANS—In any case, the Pool has sold the majority of its crop in this country and each year that it has been in existence it has sold a smaller quantity for actual export, while in 1929, or at any time, the Pool could have sold its cash wheat at the level of the market.

By the Chairman:

Q.—I don't want to hear any more about the Pool, except this one point: You say that there is a period when the Pool is better for the farmer than futures, but sometimes, when the Pool is going to give the farmer lower results than the futures, then in self defence they go into futures. So they want the best of both methods, according to your way of putting it. Whenever the price is higher than the futures, then they keep out of the futures market; but when it is lower, you say they are compelled to go into the futures market to defend themselves; that is the purport of your evidence? A.—That is my personal attitude, that they are compelled to go into the futures market unless they are going to place themselves at a disadvantage against the trade.

Q.—But you want it both ways. When things are going well with the Pool they keep clear of it, but when things are going badly they take advantage of it. Do you think they ought to go into the futures market? A.—I think they ought to have the same privileges as the trade.

Q.—Doesn't that mean this: you want to have the futures market, in addition to the Pool, in order to act as a cushion for the Pool in bad times? A.—No, I don't want the futures market at all.

Q.—So, if you had an open market with no futures, you would get wider fluctuations and poorer receipts? A.—I am not so sure of that. If you will permit me, Mr. Chairman, and check me up, I would like to point out this: I would like to point out a term used in connection with another matter; that is if mixing were withdrawn—the practice of mixing—the farmer would not be able to sell his low grade wheat. Now that fight has gone on for twenty years, and settled in 1929, and it was found in 1929 there was not anything to it, of no more weight than paper.

THE CHAIRMAN—I can't go into the merits. You merely use it to show that bogeys might exist? A.—Yes.

MR. COMMISSIONER EVANS—May I inquire whether prior to 1929 the Pool mixed? A.—For the reason I have given. The Pool was in a position where they had to mix in order to protect themselves .

THE CHAIRMAN—I don't want to resurrect ancient bogeys. I take it that the bogey has existed and been exploded! What is the next point. A.—I don't know that there are any other matters I wish to bring to your attention, except this: I don't like to cast reflections on others who have given evidence, but this is rather a serious matter. I noticed that at some former sittings members of the United Grain Growers upheld mixing, and they were pointed to as a farmers' organization.

By Mr. Commissioner Brown:

Q.—Futures? A.—Futures.

Q.—They were pointed to as a farmers' organization? A.—Yes. I believe thirty-seven thousand.

Q.—The shareholders were farmers, yes. Is that right? A.—It is and is not. The U.G.G. started as a grain growers company, intended to perform certain services. Now in my opinion it got away from that service. It became to all intents and purposes another member of the Grain Exchange.

By the Chairman:

Q.—Consisted of a lot of shareholders but not farmers? A.—Yes, but the majority who had stock in the company.

Q.—It consisted of farmers, and they did certain things? A.—Yes. The other fact I think was not brought out.

By Mr. Commissioner Evans:

Q.—The evidence was they were a stock company, and the bylaws were explained to us. No one except farmers could hold stock in the company? A.—Yes.

MR. COMMISSIONER BROWN—They were referred to as an organization consisting of farmers and limited to farmers!

By the Chairman:

Q.—Who had in fact done certain things. Whether they agreed or not. We were simply told what happened? A.—That is the way I read it in the papers.

Q.—Well, I have taken a note of your feeling about that evidence, and what was said. What is the next one? A.—I think there are no other matters, Mr. Chairman.

THE CHAIRMAN (to Counsel): Any questions? (No questions asked by counsel).

THE CHAIRMAN: Next witness?

IRA B. CUSHING (called).

By the Chairman:

Q.—Are you a farmer? A.—Yes, 21 years.

Q.—Now, Mr. Cushing, the question we have to consider: What is the effect of dealing in futures upon the price received by producers? Tell us what you think the effect is.

A.—I am speaking from the standpoint of a farmer having over twenty years experience in growing and marketing of grain in Saskatchewan. I am now seeding my twenty second crop. I am at present operating three sections, 1920 acres of land, and have operated as much as five and one-half sections (3520 acres). I have grown and marketed in one year as much as 40,000 bushels of wheat. In the business of disposing of my crop I make use of the futures market, as well as the cash market.

From the standpoint of a practical farmer, I wish to speak in defence of the futures market, showing how its functions are of service to the grain grower.

Many farmers believe that if he suffers a loss through dealing in options that his loss goes to the broker as a profit. Who pays him when there is a profit does not disturb him, as it should be time then for the broker to have a loss.

The speculating public also speak of a mysterious and powerful "they". This unknown force is supposed to be always right in the market and to cause the market to fluctuate to the advantage of the unknown "they".

A great many farmers believe that the market is manipulated so that the unfortunate farmer is always forced out of his position at a loss and then the market reverses its direction, due to the unknown "they" who proceed to take a profit.

In the public mind speculation and gambling in grain and the grain futures market have become synonmous, possibly through misunderstanding on the part of novices, but also through misrepresentation on the part of some.

Speculation, representing the functioning of many minds in establishing a mean price, looks to the future, anticipates the future, and discounts the future. Hence the origin of the term "dealing in futures".

Abundant proof is available that the service of equalizing prices is performed by the grain futures market. For instance, it has been shown that had speculation in grain suddenly ceased in the summer of 1920, when post-war prices began tumbling, the resultant situation might well have been termed a catastrophe. And precisely that very thing happened in wool, hides, leather, tobacco, silk and scores of other articles which were not commodities of speculation on the organized exchanges. For these unlisted commodities there was, for a time no market at all, with the result that the possessors were unable to dispose of their property at any price for a considerable time, whereas grain, being a commodity traded in on the futures market was saleable at a price during certain hours every business day, and it can be said, in almost unlimited quantities. To be sure both the listed and unlisted commodity eventually sought its respective proper level, but the listed commodity in an orderly manner, whereas the unlisted moved with devastating momentum. There is also the point to be considered that a too rapidly moving commodity over-runs its objective and passes to greater extremes than a more moderately moving commodity will do.

Now this same situation has applied to wheat in the deflation period since the latter part of July 1929. During subsequent months, during this period, wheat could have been sold in vast quantities in the futures market every business day, and it is noteworthy that the claim is made that the cash article was sold only with extreme difficulty and at considerable sacrifice as to priice and in limited quantities. The holders of cash grain therefore, who refused to hedge by using the futures market, suffered a very material loss and the price has so far never returned to those prices obtainable then.

But I would point out to you that the futures market was open and absorbing a very large volume of sales and it was possible to dispose of a very large amount of grain by making sales in these options. Moreover, even though the actual cash grain was never delivered against these option sales, which would have been cancelled by making a purchase at the time of a cash sale, yet all through that interval of time the sale of the option provided a hedge against the actual grain, thus providing against a loss in value and securing for the holder a very advantageous price.

Another advantage to the farmer of the futures market is evident in times of bad weather such as to make it impossible to deliver grain and also during times of embargo, when the country elevators are holding the farmers wheat and he is unable to send it forward into saleable position. Then the farmer may use the futures market to secure for himself an attractive price, which is oftentimes available at that moment.

Another point worthy of consideration is how much cash wheat can be sold on any given day after the close of the market? You can readily understand that this varies from day to day according to the feelings and requirements of the exporters or millers who are in the market or until such time as their immediate requirements are filled. It is the custom of many farmers, in the fall of the year when wheat is being shipped forward in volume, oftentimes to sell cash wheat in the afternoon after he has received the closing prices for the day. In case these prices meet his ideas he may request his local elevator agent to sell so many cars of wheat as the case may be. What I wish to point out to you is that in all my experience I have never had a refusal or heard of a refusal on the part of any elevator company to settle in full at the closing price. No matter what the advance in price may have been during the market day just closed, or no matter how much the market may decline in price the following day, the farmer's grain is settled for at the closing price if the farmer expressed the wish to sell at that figure.

Now it is just possible that the elevator company with which the farmer is dealing has just the exact demand for that amount of grain and can pass the sale on to some direct exporter or miller, but I suggest to you, gentlemen, that the true explanation is

that through the futures market the elevator company is enabled to quickly dispose of that amount of wheat, which the farmer has sold the previous day after the close of the market, immediately after the opening of the futures market the next day. The elevator company does carry the risk of a loss by a decline in price at the opening the next day, but there is an equal chance of a gain in price, and where a fixed policy of putting out hedges in the futures market immediately on the opening the next day is rigidly carried out, these losses and gains would equalize themselves. The elevator company therefore through the use of the futures market is able to pay the farmer cash price for his grain at any time. I sumit then that without the futures market a cash price after the close of the market would be more uncertain to the farmer and a greater risk to the elevator company.

Again the farmer oftentimes during the market session learns through the radio or other means of securing market news, that there has been a sharp advance in price. He can immediately wire his elevator company to sell his cash grain, either as spot or as track, and even as in store at country points, and secure for himself the extra value for his grain. And it is just such proper and skilled management of his affairs that means the difference between success and failure in farming in times like these when prices received are at such a low figure. Without the futures markets these quick sales would be impossible.

Another idea which is prevalent among the farmers is that, when the grain is coming on the market in volume then the market is unduly depressed and if it is necessary to sell the grain during the fall, it is very greatly to the farmers disadvantage.

I understand that there was presented to you during your sittings at Winnipeg, evidence to prove the claim that this idea is erroneous. Perhaps therefore you do not wish further material along that line.

However, I have a composite chart of wheat prices at Chicago dating from the year 1877. This chart is made up by taking three current futures and averaging them as one future, thus showing the trend of the market as one future running continuously.

I have checked through this graph and find that from that date, 1877, up to the present time, using Winnipeg prices where this graph ends in 1927, it would have paid the farmer to have held his wheat through until May of the following year on only twenty occasions. I have also compared the results from this graph with Winnipeg prices as far back as the records go and do not find where the results fail to agree.

I believe that a very large part of what prejudice there may be against the futures market, is based on that assumption of low prices in the fall and high in the spring when the farmer has no grain to sell.

In justice it should be said that on occasions when it has not paid to hold wheat to May there have been times when in the interval a profit could have been made, and it is also true that during occasions when it has paid to hold through, there have been very material declines in price during the interval of holding.

In times of low prices for the producers' commodity, a great deal is heard about "bear raids" and the "speculator depressing prices by selling short". I would suggest to you that the prices complained of are more properly the result of the workings of a natural law. This law was laid down away back in the 17th century by Gregory King, in his Law of Price, as follows: "We take it, a defect, or surplus, in the harvest may raise, or lower, the price of corn—that is, wheat—in the following proportions:

"Defect above the common rate may raise the price in the following proportions:—
"1 tenth raises the price 3 tenths.
"2 tenths raises the price 8 tenths.
"3 tenths raises the price 106 tenths.
"4 tenths raises the price 206 tenths.
"5 tenths raises the price 505 tenths."

This is known as Gregory King's Law of Price variations. It is equally true conversely that an over-supply depresses the price in the same proportion.

If you will follow out this principle and apply it to the world's supply of wheat as compared to the normal supply, I think it will be found that the world price rises or falls in direct proportion as laid down by Gregory King so long ago.

My observation has been that as the price of grain fluctuates it tends to over-run the proper price on the top side more often than it tends to drop below a proper price. This, I believe, indicates that generally the speculator is on the "bull" side.

It has also been my observation that the most rapid moves downward in a market are caused by the "bulls" who have overstayed the market rather than the "bear" selling short. The short seller, at such times of unloading by "bulls", is the one who steps into the market and stops the decline by buying in his short sales.

Exactly the opposite is true on an advancing market; the "bull" is the one providing the futures for the short covering "bear" to purchase, and the "bull" prevents too rapid and far an advance.

The claim is made that articles of food should only be traded in as cash and should only be bought outright. That margin trading, or trading in futures, is immoral. But I would call to your attention these facts: The greatest proportion of all buying is done on margin. I have bought all my land on margin, or contract, and future contract too, if you will: and I consider it proper so to do. I consider it an advantage both to the

purchaser and to the seller. I would certainly not make any purchase unless I believed that the article would be of gain to me, either through its enhancement of value or from the service I could derive from it. I have bought a very great amount of farm machinery not only on margin, but have also bought it for future delivery as well. I have bought horses and other stock as well, and I have even bought land without any margin at all, simply saying I would purchase and pay at a later date. These activities are all considered entirely just and proper.

What is more natural and proper then, that in the matter of dealing with the foodstuffs of the world, the handlers, shippers, processors and retailers as well as the producers must have a long viewpoint. They must deal with future necessities: they must forestall future demands: they must prepare for future needs.

To my mind the grain futures market is almost a necessity to modern civilization. Its abuse or misuse cannot be a sound argument for its abolition. Neither should it be condemned through ignorance or prejudice. Rather it should be studied and understood. If there are defects, these should be remedied: if there are abuses, they should be prohibited.

To sum up, I point to the following benefits to the farmer:

1. An omnipresent or ubiquitous market. Grain can be sold at a price any business day.
2. A capacity market. Tremendous volume can be marketed without unduly depressing prices.

In that connection, Mr. Chairman, reference was made to the effect of the Soviet Government selling wheat in Chicago—in the Chicago futures market, and the idea was expressed that the price was unduly depressed. But at that time the Chicago market was interfered with to a great extent through different causes. First, governmental interference and therefore not of sufficient volume to absorb such sales. If the purpose of the Soviet Government was to depress prices, a similar sale of cash grain in Liverpool of the same amount would probably have a greater effect.

3. A representative market. It is the idea of the world as to the value of a commodity.
4. Low margin of handling costs. Small comparative value of capital involved. Safety in hedging removes liability of loss.
5. Economical method of carrying commodity. No storage charges: no shrinkage: no deterioration of quality. Small amount of capital involved.
6. Quick market. Future contracts most liquid: can be sold instantly. Provides constant market for cash grain.
7. Orderly market. Speculative buying and selling provides resistance to changing conditions. Large amounts of grain can be bought or sold without changing price.

For these reasons I support the futures market.

THE CHAIRMAN—Whether we agree with your contentions or not, I should like to congratulate you on behalf of myself and colleagues for your most complete and thoughtful statement, and so clearly expressed. I am sure we will study it very carefully. You have put a lot of care into it, and I thank you very heartily for it. It is certainly one of the greatest pleasures I have had to listen to it, showing so much care.

Q.—I take it you would regard this phase of futures market, not so much as the farmers use of it, as the fact he can sell his grain to other people who can use it? A.—At present, yes, but the farmer if he understood the futures market more could make far greater use of it than he does.

Q.—If he does not use it it protects him by the fact he can sell it? A.—Yes.

Q.—And your view is that the effect of the futures market upon the price received by the farmer means it is less liable to fluctuation and that it gives him on the whole a better price. A.—Yes. I can give you evidence in the Winnipeg market. I would have to refer to the Pool to do it.

Q.—I won't press you. I want the general effect of your evidence. You gave us at the beginning one or two illustrations of 1920. You think, therefore, not in an exceptional time, but the ordinary time, that the futures market is of benefit to the farmer? A.—Yes, that is my idea.

Q.—Have you, yourself, dealt in futures? A.—Yes, sir.

Q.—On the whole, satisfactorily? A.—Yes, sir.

Q.—Do you deal by automatic process or by thinking up from time to time whether it is a good thing to do? A.—I have done that.

Q.—You read the reports? A.—No, sir.

Q.—How do you decide when to go into the futures market? A.—I take into consideration the market; also take into consideration the volume and condition of the market.

Q.—You study that? A.—Yes.

Q.—Do you rely on literature you receive from brokers and commission houses, Pools and other people? A.—Not at all.

Q.—Would it influence your mind if you received half a dozen pamphlets making it look pretty "bullish"? A.—Yes, for instance in 1929.

Q.—Yes, that was exceptional? A.—The position of the market showed the trend was down.

By Mr. Commissioner Brown:

Q.—I quite agree with the clarity and forcibleness of the statement as indicated by the Chairman. In that statement you say that if there are any abuses they should be remedied. That is, you are an ardent supporter of the futures market. Have you in your study of the futures market found abuses? A.—I think governmental interference is the thing to overcome.

Q.—Has there been any governmental interference? A.—Yes.

Q.—On the Grain Exchange? A.—Yes

Q.—In what way? A.—Supporting the market by government guarantees.

Q.—You are thinking now of the Pool? A.—Yes.

Q.—Have you anything else other than that? A.—The United States Government through its influence of the Chicago market affects the Winnipeg market.

Q.—You think the Futures Act of the United States has been an interference to the detriment of the producer? A.—It has been interference to the natural trend of the market.

Q.—To the detriment of the producer? A.—I think the advice of the United States Farm Board was detrimental because they were wrong.

Q.—No, the Futures Administration Act of the United States which gave the Government some supervision over the Grain Exchanges of the United States, and the Grain Exchange of Chicago—you say that has been detrimental to the producer? A.—I refer to the Farm Board.

Q.—That is another matter. You were not thinking of the Administration Act of the United States—the Grain Administration? A.—No.

Q.—Well, what do you say about that? A.—Its effect has been very limited.

Q.—I put the question to you this way: Would you think it would be detrimental to the producer if the Government did have some supervision over the activities on the Grain Exchange as far as futures marketing is concerned just as they have supervision over the administration of the Canada Grain Act? A.—I think where they interfere with the natural trend of the market it would be detrimental, yes.

Q.—No, not to interfere with the natural trend, but to try to protect anyone else interfering with the natural trend of the market? A.—No, I don't think so.

Q.—What is that? A.—I don't think it would have a detrimental effect on the producer.

Q.—You think it might be a safeguard in the interests of the producer? A.—In the first place I don't know that there is any detrimental influence.

Q.—Supposing we found some. We are chasing after it. We think we have located some. Assuming we do find some, do you think government supervision and regulation in a moderate way such as we have in connection with the Canada Grain Act would be in the interests of the producer? A.—I don't think it would be of detriment to them, as the Canada Grain Act.

Q.—What is that? A.—As the Canada Grain Act. That is, if it does not interfere with the natural trend of the market any more than the Grain Act, I don't think it would be of detrment to the producer.

Q.—You are a firm believer in government supervision of the marketing of grain as indicated in the Canada Grain Act? A.—I have no objection to the Canada Grain Act as administered, no.

Q.—No, but are you an ardent supporter of it? Would you like to have things as they were thirty years ago, or do you believe that the Canada Grain Act has been a real factor in securing relief to the producer? A.—Yes, I think the Canada Grain Act is a good thing.

Q.—Notwithstanding the fact that out of it there comes government supervision—I say, government supervision? A.—If it does.

Q.—Well, it does, does it not, through the Board of Grain Commissioners? A.—Yes, to a certain extent.

Q.—To a large extent? A.—Yes.

Q.—Well, all right! I say, there being a basis for government supervision as expressed in the Canada Grain Act, would you also think that perhaps it might be advisable to have government supervision and inspection with reference to the marketing of all this grain, so far as necessity indicated, in the futures marketing, on the Grain Exchange? A.—No, I do not think so. I think it would be going too far.

Q.—Why? A.—Because they are wrong. They did not interfere so much under the Canada Grain Act.

Q.—I am not saying that they are going to interfere so much. I am indicating that they will only interfere when necessity arises, but if abuses do arise somewhere around the precincts of the Grain Exchange with reference to futures marketing do you think that a government supervision would be a restraining power? A.—I think it might restrain.

Q.—Do you think it would be helpful? A.—Yes.

By the Chairman:

Q.—Do you think that the facilities afforded by the futures market are very much abused by the people who had to do with it, like stenographers and bootblacks? A.—Yes, I think they use it too much, without information.

Q.—But you would not abolish the futures market because of that? A.—No.

Q.—Do you think the futures market is abused by internal manipulation, by people getting together and trying to raise the price in a particular direction? A.—I have no evidence of it. I have asked the people who talk about "they" and I haven't been able to find any evidence.

By Mr. Sweatman:

Q.—Have you done considerable speculating apart from your farming operations? A.—I do speculate.

Q.—Did you make more out of your farming operations than in speculating? A.—My income is from my farm.

Q.—Without desiring to inquire into your private business, have you been short selling? A.—I sometimes short sell.

GEORGE LANGLEY (called).

By the Chairman:

Q.—Mr. Langley, everybody else here knows you, but I haven't that privilege; do you mind telling me what your qualifications are as a witness? What have you been? A.—Well, everything.

Q.—So I gather. A.—First of all, I am an Englishman. I can tell what you are. We are seeding our 39th crop in Canada.

Q.—You are speaking as a farmer? A.—Yes, I have had 25 years' connection with marketing grain in Saskatchewan. I have been a member of two commissions.

Q.—It is a great comfort to me to see you have survived. A.—And on each occasion we examined members of the Winnipeg Grain Exchange, endeavored to learn something about them, about the institution. I was for eleven years vice-president and one year president of the largest elevator company in this province. That will be enough for the present.

Q.—That is enough for the qualifications. I think we can very well let you go on. I might remind you of what our question is, that is what is the effect of trading in futures upon the price received by the producer? Will you tell us in your own way and without any interference on the part of myself and counsel what your answer is to that question? A.—During the whole of my association with the elevator company we used the futures market. It was a condition of our line of credit which at times went over ten million dollars. It was a condition with the banks that everything we bought should be hedged and we loyally carried out the condition. Incidentally, I might say that I think so long as you have an open market trading in futures is beneficial to the producer, unless you have some efficient substitute to offer. I do not look upon it as an ideal form of marketing for this reason, marketing under these circumstances is a speculative institution and where you have speculation on a market with large operators, those operators will at times manipulate your market. I have no doubt in my own mind about that and when the market is deflated and is manipulated by large operators the price goes down and down and down. May I say with regard to our investigations of the Grain Exchange, if I do not hurt Mr. Evans's feelings——

THE CHAIRMAN—He takes no notice.

A.—I will try not to hurt him. After each of our investigations I came away with this thought, gentlemen, that we have not got to the bottom of things; that there was, to use one of our colloquialisms, a nigger in the woodpile, and we had not got hold of it. Now, that is the opinion of myself and I think the opinion of the colleagues who were working with me on both occasions.

MR. COMMISSIONER BROWN—How long had you spent trying to find that fellow in your investigation? A.—We had the president of the Exchange before us and several other members and we had a heated family quarrel among the Commissioners.

THE CHAIRMAN—Oh, dear.

WITNESS—And the whole thing took up about three days, Mr. Chairman.

MR. COMMISSIONER EVANS—Anyway, you did not find anything? A.—No, we did not. I remember now that a member of the Exchange told me that for every seller there is a buyer. Mr. Chairman, I have never believed it. I believe there is an arrangement by which operators on the Exchange can sell without having a buyer. I have held that opinion for a number of years.

By the Chairman:

Q.—You did not put this in your findings of the Commission? That is something you have held over? A.—I brought it for you, sir. I mention that because it represents a difficulty which you are finding and as we found it, a real difficulty, and I am hoping that this Commission will be able to get where we were unable to get in dealing with the Grain Exchange. My chief complaint of the Grain Exchange is that it is a corporation of private individuals. I think it was in 1808 or 1809 they became an incorporated body——

Q.—1908-09, you mean? A.—Yes, I mean that. I am rather old but not as old as that. Directly we attempted to touch them they immediately slipped out of their incorporation and organized themselves as a body of private gentlemen, built this splendid building they now operate and support without being a public body. The representatives of the Exchange told us that the Exchange did not do anything, that it was no use trying to drag the Exchange into the matter or trying to have them all beheaded because we should be beheading the innocent. I thought the same thing as I do today. My opinion is that it should become a public body, properly incorporated and subject to public authority; that there should be not only supervision but continuous supervision. I do not mean by that silly meddling with business matters. I should regard that as a calamity. I do not think there is any need for regulations. The very fact of it being known that they are under continuous supervision would be the best of all regulations in itself. I do not think anyone would be hurt. I am hoping, of course, that we shall be able sufficiently, ingeniously to establish a marketing condition in connection with our grain that will render more or less the existence of the Exchange as a futures trading body altogether unnecessary. But we are evidently only approaching that slowly; perhaps for that reason the more surely, Mr. Chairman. Now, these are some of the thoughts that I have had in connection with our central grain institution and the marketing of our product there. I want to say this, I am not a paid agent for any organization at the present time.

Q.—Nobody supposed that, I imagine? A.—Oh, I don't know. I am a Pool contract signer but I do not here represent the Pool, but I believe in a central selling body; I do not believe in an elected selling body. May I explain that in a word. We have a similar institution in Canada and in the United States. We have a judiciary of which my old acquaintance, Chief Justice Brown, is a shining light.

Q.—Is it wise always to flatter the Commissioners? A.—I thought my friend beyond flattery. Our neighbore in the United States have a democratic judiciary, it is an elected judiciary. I think in point of view of quality and satisfaction there is no comparison between the judiciary of the United States and the judiciary of Canada.

Q.—Better than Canada or worse? A.—Oh, worse.

MR. COMMISSIONER BROWN—We are getting away from the subject. A.—Well, to return, I am a believer in a central marketing organization and an appointed management. That is what I want to see. I think I have generally outlined my thoughts. We never had any difficulty with futures trading while I was vice-president of the elevator company and one of the managing committee. We sold our grain and we had lots of it. They never took grain to the other elevators while they could get into ours. There was no question about the popularity of our institution, and Mr. Commissioner Evans is aware that we had this peculiar result, Mr. Chairman, while we were operating as an organization the Grain Exchange did us the flattery of issuing two price lists. Where they competed with us they issued a high price list and where without our competition they issued a lower price list.

MR. COMMISSIONER EVANS—You say the Grain Exchange did that? A.—Mr. Evans comes out immediately with a difficulty. He says, "What body did it?" Well, of course, the Grain Exchange did not do anything.

THE CHAIRMAN—Except apply for Commissions? A.—Except pocketing its profits.

MR. COMMISSIONER EVANS—Where are the profits of the Grain Exchange? A.—Well, now, if you would give evidence before the Commission we should learn something. Mr. Evans wants to know where the profits are. I do not know how many seats there are on the Grain Exchange, but I imagine about twelve or fourteen hundred.

THE CHAIRMAN—Isn't the evidence that there are about 450?

MR. PITBLADO—463 to be exact.

WITNESS—And the price of a seat, Mr. Pitblado?

MR. PITBLADO—I do not know, Mr. Langley. I do not know the price, I am sorry to say.

THE CHAIRMAN—We have heard that seats changed hands at premiums over the cost of entry. I do not know that the profits went into the Exchange but into the hands of the individuals selling the seats.

MR. COMMISSIONER EVANS—It is entirely a non-profit organization. It pays no dividends and gives nothing but service, providing the trading floor.

WITNESS—There is no difficulty in understanding it at all.

MR. COMMISSIONER EVANS—Does it make a profit on its own part there? A.—Would you pay that large amount for seats if nothing attached to it?

THE CHAIRMAN—The individual might.

By Mr. Commissioner Evans:

Q.—There is a distinct difference between the profits made by the individual members and profits made by the Exchange. A.—I imagine not. It is a body of gentlemen interested in the grain trade and by being members of the Exchange they can go on to the floor of the Exchange and do business and their profits come right there.

Q.—According to law. A.—My objection to the whole thing is that it is a gambling transaction.

Q.—You were gambling for eleven years? A.—I did not have a say in it.

Q.—This organization to which you refer was an organization composed entirely of farmers? A.—Yes.

Q.—They owned the stock and the whole company? A.—Yes.

Q.—And that farmers' company, in its best judgment—or at least it proved to be the greatest elevator company of the kind that ever existed? A.—No, I did not quite say that; in the country. I believe it is true, I think——

Q.—And they pursued their honorable career and those farmers in their best judgment during the whole time used the futures market and have used it successfully as you say? A.—Quite so. There is no doubt in the world about that. We never got into any trouble. We kept a very careful lookout to avoid trouble. We did not fall, however, on the unseemly times that our friends of the Pool have fallen on and we did not make the other grain dealers our enemies as the Pool has made them their enemies. To that extent at any rate we operated successfully. We closed out and went into liquidation, and a surprise for you, Mr. Chairman, you coming from the Old Country, liquidators as a rule are troubled about closing out because of want of funds. We had just a little trouble in closing out because of the abundance of funds.

By the Chairman:

Q.—I understand it was not necessary for you any longer to go on in business. You could make what you want in other directions? A.—No, no, you are entirely mistaken.

Q.—That is what I hoped. What is the latest history? A.—Our company preferred to sell out to the Pool, which we did, and in some cases I think they are a little sorry for it. Oh, I think so, that the Pool would have done better to have dealt in futures. I am not certain. There is one aspect of futures that I would not like to leave without mentioning. The question is asked again and again: Is it not a fact that many farmers generally have nothing to do in connection with the futures market. Our farmers, speaking by and large, we have some 125,000 to 127,000 farmers in the province and the vast majority of them know nothing about the futures market and have nothing to do with it. I am a member of the organization of which Mr. McAuley is at present the chairman, the United Farmers of Canada, and in reference to that organization, Mr. Chairman, it is at present almost at a standstill. Its treasury is entirely depleted. I very much doubt whether five thousand of the members are paid up members at the present time. Secondly, the statement from our president in connection with the opinion of the farmers generally might be somewhat misleading. As a matter of fact only the smallest percentage of our farmers and most of those farming largely have nothing at all to do with the futures market and even those, certainly not five per cent of them, I would say not more than five to ten per cent, of the farmers have in all their operations anything to do with the marketing of grain. I notice in the report a gentleman appeared before you who said he believed in futures marketing and gave his reason. He said he sold his wheat at threshing time and bought options, but with great respect that had nothing to do with the futures market. That was a pure gambling transaction and I would say that it is a matter for your serious consideration that dealing in futures in our western country, in our own province generally, has degenerated into a pure gambling affair. It is not our farmers alone who buy futures. It is our tradesmen, our storekeepers, our mechanics, very often our workers, men around our city, who look upon an opportunity for getting something for nothing.

Q.—Are they usually bulls? A.—I think so. I think most of them are buyers and it is having for the moment—I do not want to pose as an authority on morals—a distinctly demoralizing effect upon our people and anything that can be done to moderate should be done. I believe that the incorporation of the Exchange and the supervision of it, wise supervision by a properly appointed and qualified supervisor, would have a great deal to do with abolishing this gambling orgy that occurs among our people. Whenever the market moves rapidly everybody rushes in to take a flyer.

By Mr. Commissioner Evans:

Q.—How do you think we could do that? If the administration saw an order come in from a farmer would they say to the farmer: "Now, be good and don't run any risk"? How would supervision keep speculating away from the five thousand you mentioned who wanted to speculate? A.—I do not believe that amount of farmers did operate on the Exchange today and I do not believe that the men who operate on the Exchange today in the large measure would continue to do that under supervision.

By the Chairman:

Q.—That is before any order was executed it would have to be guaranteed that he was only selling in regard to his wheat transaction and that he was not a stenographer or bootblack as we have heard. Would that do any good, if certificates had to be given that they were wheat transactions? A.—If it was known that wheat was being sold and not wind.

Q.—Not wind—bushels? A.—It would have a distinctly beneficial effect.

Q.—Have you thought of any practical supervision that would keep out this undesirable element and keep the benefit of the futures market for the farmers generally? A.—Well, I think you must have the appointment of the supervisor.

Q.—Could he work by the way of watching guarantees and that sort of thing? A.—Yes.

Q.—That in your judgment would do something to weed out the undesirable element?

A.—I would not have the supervisor report to the government, but that he report, say, to a body like the Board of Grain Commissioners.

Q.—What would he report, that five thousand farmers——? A.—That would be part of the report.

Q.—And a lot of tradespeople coming into the market? A.—Movement of price would be stabilized, made more steady, because my observation has been this: that where men in a large way, men with half a million dollars were operating on the market, not for the purpose of buying grain like a miller but for the purpose of playing the market. It would be very soon known that they were doing that if their names had to be placed against every purchase, and why shouldn't it be?

By Mr. Commissioner Brown:

Q.—Do you suggest, Mr. Langley, that some of the big fellows start the public going? A.—That is my suggestion exactly.

By the Chairman:

Q.—Supposing you had a regulation for keeping the public out, then he would not have anybody to appeal to? A.—Yes. I see your difficulty; you see mine. The difficulty is to distinguish between what is grain and what is wind.

By Mr. Commissioner Evans:

Q.—You would have it so that the name was given out and, if Mr. Langley, after selling his cash wheat, had bought, you would have it announced to the world that Mr. Langley had bought 2,000 bushels? A.—When you talk about announcing to the world you surely don't understand me that every small transaction has to be advertised in the daily papers?

Q.—Why not? A.—Who would bear the expense?

Q.—That is for you to say. A.—Well, I tell you it wouldn't be done. There would be no expense.

Q.—How would you select the men you would advertise to the world from the other men who were doing the same thing? A.—Mr. Evans, I must be civil to you. I know you don't take me for a dummy and I am going to return the compliment there. In these matters things would be business transactions. For instance, this is my idea of a grain market: it is a place where the man who has grain can go and sell it.

Q.—Who would buy? A.—And a place where a man who wants grain to use can go and buy it. There you are, you see. There is the complement. You struggled this morning——

MR. McAULEY (from the audience)—Mr. Langley!

THE CHAIRMAN—Now, we can't have any public examination.

WITNESS—If you will keep quiet, you will learn a thing or two. Now, this is my idea of a market. The less you complicate it by side issues, the better. Our farmers are not interested in the futures market, or in gambling. Our farmers are interested in raising grain and selling it after they have raised it.

By Mr. Commissioner Evans:

Q.—Take, for instance, the market in 1928, when up to the end of November 300,000,000 bushels of cash wheat had come forward? A.—Yes.

Q.—You want a market in which you can sell that in four months and where would you get it? Who would you get to buy it? A.—I have not said anything about it being a cash market. I am trying to disabuse your mind, Mr. Evans, of one thing, that is all. It is that there is an abuse of the futures market. The use of the futures market is all right. Why, it is like drink—a glass now and again is all right.

By the Chairman:

Q.—Drink always has got to go down, Mr. Langley. A.—I know it has, and it sometimes comes up as well. Now, to summarize what I have tried to say to you, gentlemen, I believe there is a use for the futures market. While there is open trading anywhere there will be use for the futures market. But, after all, hedging grain on the part of millers, millers buy in the futures generally to make absolutely sure that their stocks will be available when they want to grind them, and if they can deal with an institution where they know their grain will be available when they want to use it, they don't need to go into any gambling in connection with it. I had some notes, but I think I can do without them.

By the Chairman:

Q.—I think you can. Do you think, on the whole, it is advisable for farmers to sell their wheat fairly promptly for cash and have nothing to do with the futures market? A.—Well, I am not quite certain that I shall answer that as you want me to.

Q.—I don't want you to answer in any particular way. I want to know what you think. I don't care how you answer it. A.—Well, hedging the question for a moment, the majority of our farmers, apart from the Pool proposition, have to sell their wheat as soon as they can get it threshed. They have to sell it and, consequently, it is not a question of whether they want to or not. The overwhelming majority of them who sell on the open market have to get rid of it as soon as it comes from the threshing machine. For instance, we overfeed our market about the middle of September and on to the middle of November. During the early weeks of threshing everybody is at their busiest

and the men whose accounts are overdue—they are generally overdue, and I hope you won't go away from this country, Mr. Chairman, with the idea that the farmers in this country are rolling in riches.

Q.—There is no impression of that so far. A.—Well, don't take your impression of the farmers from the people you see in front of you.

Q.—No. They look pretty prosperous? A.—Yes, but appearances are not always to be relied on. The majority of our farmers at the present time are embarrassed to know how to make their income meet their outlay. That is their position. I have four sons farming, so that I am as much a farmer as I was twenty years ago.

Q.—Now, what I want to know is, do you think, from your experience of what the farmers know about futures, that it is wise for them to have anything to do with the futures market after having disposed of their cash wheat? A.—I think it is very, very unwise, and if he is judging his own interest, and judging it fairly, after he has sold his cash wheat he will have nothing at all to do with futures. I have had a rather long experience. I have been connected with grain markets and investigations and sundry other things, but I have never speculated a dollar on futures from the beginning up till now, even when I have been told that it is a certainty. I should regard a bet on futures as a little more hazardous than a bet on a race horse, and I am not much of a sportsman along that line.

THE CHAIRMAN—Well, thank you very much, Mr. Langley. You have been a great help to us, and we have also enjoyed it very much.

F. SPROULE (called).

By the Chairman:

Q.—What is your occupation? A.—Farmer.

Q.—How long have you been farming? A.—Twenty-one years in Saskatchewan.

Q.—You know our general question. Will you please, in your own way, give us what you think is the answer? A.—I prepared a short memorandum here, to outline the condition as I have found it in the country, and I thought it would be——

Q.—Will you just read it?

A. (reading)—For the past twenty years I have been farming in Saskatchewan and during that period have witnessed many changes taking place in the perfecting of farm machinery. The old one-cylinder type, which required a heavy fly wheel to carry the machinery until the next explosion took place has been done away with and we have today a four and six cylinder machine to divide the load equally, creating a running machine, doing away with much vibration and creating greater power on the draw bar.

These great changes have taken place in the machinery used on the farm for producing. However, we find our system of marketing quite similar to that of twenty years ago, where the speculator is still being used as the fly wheel was on the old one cylinder machines.

I realize that where the elevator companies pay the farmer in full for his grain when he delivers at country points, it is to the company's advantage to be able to protect itself from price fluctuations until it can dispose of the purchases of grain. In doing so, by the method of hedging, the public who buy the futures carry the risk for the elevator companies. It is true that while the farmer receives from the country elevator a price based upon the Winnipeg future, is should be pointed out that the farmer does not thereby escape the cost of storage and carrying charges, as they are deducted from the price paid him by the elevator companies. This is particularly noticeable in the case of wheat purchased in or after the middle of November, as such grain is bought on the basis of the following May future.

The farmer in entering the futures market as a speculator thereby carries a considerable portion of the elevator companies' risk himself, frequently with disastrous results to himself. Indeed, the farmer is almost always a bull and invariably loses in the long run.

In the hope that I might furnish you with some conception of the extent to which the farmer carries the elevator companies' risk, in the fall of 1929 I made a careful study of individual purchases of futures by residents of half a dozen towns in the southwest portion of Saskatchewan, and by farmers surrounding these towns, and from my general knowledge of the rest of the province, I would say this particular territory is typical of conditions throughout the province. Assuming such to be the case, and applying my findings to the province generally, after deducting 25 per cent of the total for errors, I came to the conclusion that the sum of $70,000,000 was taken out of the province of Saskatchewan in the fall of 1929 which was used to furnish the necessary protection to the trade.

It is true the short crop of 1929, coupled with the prediction of higher prices, undoubtedly brought the general public into the active bull market at that time. Nevertheless, every normal year finds a very large number of Saskatchewan farmers trading in futures.

It is submitted that had there been no futures market the price of wheat in 1929 would not have reached anything like the high points to which it was driven by speculation. These fictitious price levels drove Canada's wheat prices out of line with world's

market values. The instability of our markets ruined the confidence of our importers, with the result that Canada's carryover of wheat was much larger than would have been the case otherwise.

I further claim that the speculative system is economically unsound. To the extent that Canada's wheat crop is hedged, sold on futures to millers, exporters, speculators, the finances of the country are tied up in margins and as we depend upon the public to supply funds and find purchasers for a futures market, and they are unable to do so, to this extent the futures market is unable to function, which is reflected immediately in the price the farmer ultimately receives for his grain.

As a farmer I find that so much money is lost in speculation in the last few years that the farmers have nothing left to assist in producing the crop of 1931.

I prepared that statement, Mr. Chairman, so as to make my evidence as brief as possible.

(Statement as above marked Exhibit 34.)

By the Chairman:

Q.—Who are the other people that you think provide the other side of the account when the farmers are speculating? They are usually the bulls? A.—My experience is they are always expecting the wheat to go up.

Q.—Who are the people who finally pick up the money they lose? A.—There is always one who buys and one who sells, I am told. The farmer is not the only buyer of futures, but he is the seller of cash grain. The man who is in a position to have a general knowledge and fairly accurate knowledge, and is in a position to make use of that knowledge to his own benefit, can, I believe, manipulate the market so that the man who bets against his position is going to lose.

Q.—Some powerful speculator who can take advantage of the division of the farmers and their relative ignorance? A.—On this account: We are giving a great deal of thought and attention to producing better wheat, combating disease in plant life, doing everything possible to produce wheat. Our farmers are scattered. We have many men coming from different parts of the world with very small experience and we all, both business men and farmers in this country, depend on the result of our grain sold on the market and we all have a feeling we would like to see a little better price. That creates a bullish feeling and the speculative market being available, it is creating a menace to the young men of this country—and, I will say, the women, too—and that is not a healthy situation. For although the speculator may be considered a speculator, the man who goes deliberately into the market without any knowledge at all, can be considered nothing more or less than a gambler, and I don't believe in that.

Q.—You think there is too much gambling on the part of the farmers and people generally? A.—Yes.

Q.—If the gambler could be eliminated, is there anything good in the futures market from the farmers' point of view? A.—So long as our present system is being made use of for the marketing of our grain, I believe we would be compelled to use the futures marketing system for the protection of those who are handling the grain. But that is not the ideal of the farmers. The ideal of the farmers is to market their grain without the need of that system. The idea of the farmers was quite wholly expressed in 1919-20, when the Government of Canada took away from the Exchange their freedom and controlled the marketing of the grain in such a manner as to make contact between the producer in this country and the consumer in the parts of the world where that wheat was needed, and returned to the producer the largest possible amount.

Q.—You think the futures market is so unsatisfactory because gambling exists? You would be prepared to say it should be abolished, and suffer whatever consequences might follow; is that your feeling? A.—I am not wanting to see anything turned down until something better is created to take its place. I believe the minds of men who have conceived such great changes in modern machinery, modern life, can conceive of something better in the marketing of grain, so that the world's consumer and the world's producer can be brought closer together and we can bargain, one with another, as to the fair price that each one should give in exchange.

Q.—You think it is within human ingenuity to invent some kind of marketing without involving futures? A.—I do.

By Mr. Commissioner Evans:

Q.—In 1920 what was the organization of consumers in the world then? A.—The organization for buying would be much similar to what we have today.

Q.—What was it then? A.—We found that the buyer was pretty well organized under the governments of those countries who needed our grain.

Q.—Wasn't there for all the allied countries only one buyer? A.—To a great extent there was, except in the United States.

Q.—So you could hardly think it practicable to sell direct to consumers from any experience of that year, unless we could propose that the group should consist of all the importing countries of the world getting together as one buyer? Do you think that is practicable? A.—I am sufficiently optimistic to feel that the people of Western Canada will some time be able to meet those who are in need of our wheat, as we did in 1919, and act as one part of the bargain in selling the world's commodity.

Q.—Have you been a member of the Pool throughout? A.—I have been a member of every farmers' organization in the province of Saskatchewan since I came here.

Q.—The only thing I was going to ask you, during the last seven years have you not been proceeding on a plan which would get you directly in touch with the consumer? A.—We have had that as a great ideal of organizing for the selling of grain in such a way that it would eliminate all waste caused by manipulation or speculation and return to the producers of this country as large an amount of the consumer's dollar as possible. This has always been considered by the farmers of Western Canada as a step forward. We have never felt that it was the last thing in marketing, but that it was a great step forward in that direction.

Q.—May I ask how would financing be done under your plan? A.—Well, you have good security to offer to the banks of this country. It has always been my experience that we have never had any trouble in securing the necessary finances to carry on.

Q.—Is that the experience you are having this year? A.—It would be the experience we have had every year. If we did not have good security, then we had either to give additional security, or, as when I was doing private business with the bank, I had to get my neighbour to sign a note.

Q.—Who would be your neighbor under the scheme you are proposing? A.—My neighbors would be those who are interested in securing a price for their grain corresponding with the labor that they put into it.

Q.—I am asking a serious question. I am taking, of course, the position of the Pool last year and again this year. There have been grants by the provinces, with help from the Dominion Government, and all I want to know is, if in the future that you are looking forward to, you are relying upon the Governments, Provincial and Dominion, to supply that safeguard against fluctuation, which under the open market system is supplied by the futures market. If you have no futures market to carry that risk, who is going to carry the risk under this scheme of yours? A.—I have considered that, and many others have given considerable thought to it, as well. We feel that the farmers who have supplied the finances for the producing of this grain and assumed the original responsibility in Western Canada, will unite to assume that responsibility in placing that grain on the markets of the world.

Q.—I am, of course, more interested in one province. Are we to understand from you that the provinces could withdraw from the situation and you could take it over? A.—We have always had the very best of relationships with the provincial and federal governments, because any time that you are working in the interests of the country as a whole I feel that we will get the best of services from any public institution that are elected to give services to the public, and I think that relationship will continue in the future.

Q.—You think that the provincial governments are likely to give financial services? A.—At least I can speak for the province of Saskatchewan. In large parts of the province of Saskatchewan they have been giving relief for coal, and foodstuffs where the returns to the farmers for the last three years have not been sufficient.

By the Chairman:

Q.—You think the fluctuation in price might very well be a public charge, not falling entirely upon the farmer? A.—No, not a public charge, Mr. Chairman. I said that the man who assumed the responsibility of producing the crop, who is the initial investor, he has his money and his home on the farm, he is responsible for producing this crop, and I feel that he will be equally responsiible for marketing that crop.

Q.—You are prepared for him to bear the whole of the fluctuation in the world's markets? A.—I don't feel that that fluctuation should come into the picture at all, because of the fact that this grain will be delivered to the markets of the world in relationship to world's market values, and probably the fluctuations that we have today would be no more than the average farmer is losing today in speculation on the futures market.

Q.—Supposing the farmers are having a bad time and prices are falling away everywhere, you are prepared to have the farmers take the risk of that kind of a fall? Supposing the prices all over the world—supposing the price of wheat in Liverpool, we will say, is falling from all sources, you are prepared for a Canadian farmer to bear the whole of the fluctuation of the fall in price? A.—I believe that the development will be toward creating reserves in good years that can act as insurance to take care of the crop when conditions such as you have outlined would happen.

Q.—You would like to see an insurance scheme, whereby farmers in prosperous years would pay a premium to provide a cushion for bad years? A.—All business institutions I have been associated with create a sinking fund. We must always look forward to poor years, as well as good years. The farmer who invests all his money in next year's crop is a very poor provider when they lose that crop, and I think some protection of that kind could be created.

Q.—You would have no fear of one market like your own following its particular course, while the rest of the world still had futures, when you come to competition in a neutral market like Liverpool? A.—I believe the world's economic situation today is moving toward the place where we can establish international trade relations with all producers of wheat, so that one may go on the markets of the world without interference one between the other. I believe that Saskatchewan, or some country, must take that

initial step, and I don't know of any country that is more noted for its pioneering than we in Western Canada and more likely to take that initial step.

Q.—Supposing your country took that initial step and nobody else followed, would you be prepared to take the risk of Canadian wheat competing with Chicago's futures wheat and the like in Liverpool? A.—In preference to our farmers, 120,000 competing among themselves in Saskatchewan. I would.

Q.—You would not mind in the least being isolated in the Liverpool market? You don't think it would be too risky? A.—I don't believe that the consumer, or those who need wheat in Liverpool, would feel like isolating us, any more than they feel like isolating Russia.

Q.—They would not be isolating you. It would be a question whether you would be prepared to compete with other people's practice, where the price comes from the markets where they have futures. Does that alarm you at all? A.—It does not alarm me, because we have to compete with those prices now and compete one with the other.

Q.—Yes, but they are all dealing in the same method of futures. I am asking you whether if they all remained on the future basis you would be prepared to take the risk of instituting a scheme of your own. It is all right if you sold it on the open market in Canada, but you have to compete with the rest of the world. Are you prepared to be different from them in a way of your own? A.—Four-fifths of Canada's crop in normal years must be exported to the markets you are speaking of, and I believe we can establish better feelings between the consumer and producer by eliminating the fluctuation in grain. I believe we can establish better relationships than we have today. I believe that it is highly necessary to take this step of marketing our grain, whether other countries take that step or not, as an initial step towards that end.

By Mr. Pitblado:

Q.—I would like to ask the witness if he is a Director of the Wheat Pool in Saskatchewan? A.—I thought that I left that impression with you.

Q.—You are a Director? A.—Yes, I am a Director.

THE CHAIRMAN—Thank you very much.

WITNESS—I would like to file with you the report of the Commission known as the Stewart and Riddell report and call your attention to some statements on page 6, on establishment of prices, and on the top of page 9 where it deals with the various features of the grain trade, and page 10 where it deals with competitive selling.

(Report referred to marked Exhibit 35.)

I would also like to file with you some features of the open market system as dealt with by Mr. Sanford Evans in the year 1921.

(Document referred to marked Exhibit 36.)

T. W. SCAVERY (called).

By the Chairman:

Q.—What is your occupation? A.—Farmer.

Q.—How long have you been farming? A.—26 years.

Q.—You know the question before us: what is the effect of futures trading on the price received by the producer? Will you tell us what you think about it? A.—I have not prepared any brief, but I can see no objection to it, myself. In other words, I don't know any system that I would prefer to it.

Q.—Do you think it improves prices, or lessens fluctuation in prices received by the producer? A.—Well, I think it would.

Q.—You think it improves prices and lessens fluctuations? A.—Yes.

Q.—Have you dealt in futures yourself? A.—Some.

Q.—Systematically? A.—No.

Q.—What determined you when you dealt with them? A.—Sometimes when I had a good crop of wheat and I thought the price was very cheap and I thought the price was likely to rise, I would sell my cash wheat as quickly as I could and take May instead.

Q.—Have you generally sold your cash wheat? A.—Usually most of it. It costs me too much for storage.

Q.—In what proportion of your twenty-six years have you sold your cash wheat promptly? A.—I should judge, two-thirds of the time.

Q.—And when you have sold your cash wheat promptly in those sixteen or seventeen years, out of how many of those years have you bought futures? A.—Oh, probably half of them.

Q.—With what results? A.—I have been successful, I think, every year except 1929.

Q.—This last year seems to have bitten many people? A.—Yes.

Q.—Does that mean you will never do it again? A.—Oh, I hate to promise. I might say also that a few times I have sold my crop in the spring before threshing it. In 1928 I sold in April and bought.

By Mr. Commissioner Evans:

Q.—You made well in that year? A.—Yes, the price was very high then.

By the Chairman:

Q.—Do you find evidence around you of great abuse of the sytem of the farmers gambling unwisely? A.—Oh, yes.

Q.—You think they are not doing it with the same discretion and knowledge that you possess? A.—Well, I don't know whether it is that. I have been usually successful. There is a tendency to go to extremes.

Q.—People go to extremes? A.—Yes.

Q.—Do they do that by instinct, or are they led to it by propaganda? A.—Well, if wheat starts to advance rapidly, naturally everybody believes that it is going up and that encourages buying; and if it is a thin crop, then there is a tendency to sell.

Q.—That is, people who would hold their wheat in the ordinary way sell it quicker? A.—Yes.

Q.—I am speaking now of farmers who deliberately go into futures, make a practice of it, and you think they do it wrongly? A.—Well, in my judgment, a large percentage of those who deal in futures, lose by it.

THE CHAIRMAN—Thank you very much.

R. O. ROGERS (called).

By the Chairman:

Q.—You are a farmer? A.—Yes.

Q.—How long for? A.—Twenty-seven years.

Q.—In this province? A.—Yes.

Q.—You know the question we are considering, the effect of the futures market upon the price received by the producer. What do you think about it? A.—I can only speak in so far as it affects myself. As far as it affects the Grain Exchange down at Winnipeg, I don't know much about it. My size-up of the situation is about this: I have been raising wheat for 27 years and my policy has been to sell about half of my wheat in the fall and carry the other half in my granaries till spring. That is my method of feeding the market. By so doing, the day I sold my wheat I stop speculation. I speculated on the other half. Now, I have neighbours that sold all their wheat in the fall and turned around and bought on the Grain Exchange for May. They went out of speculation when they sold their wheat and they return into speculation by buying those options. I have Pool neighbours that turned their wheat into Pool elevators and still stay in the speculation, because the wheat is not sold. You don't get out of speculation till you get rid of your grain. Now, that is my size-up of the situation. It is the method I have followed through all the years and I have found it profitable to me. The last two years I deviated, much to my regret today. I held my wheat and speculated on the whole of it instead of the half.

Now, while that has been my general policy, I have nearly always carried some wheat in the elevator, so if the market took a sudden jump up I could sell, because I am twelve miles from town and could not get it in quick enough. I have found the carrying charges cost me 1½c monthly, or twenty cents a year, and if I don't get a twenty cent rise in price, I lose. Consequently, the wheat that I hold in the fall for a dollar a bushel I have to have $1.20 in the spring, and for that reason anybody who starts to carry wheat must realize that it costs money to carry it and the cheapest way to carry it is in your own bin and I believe that is really the best way. Yesterday I sold some wheat for less than forty cents, after carrying it for about five months, the cheapest that I have ever sold it, because I had it in the elevator and it was eating its head off. I have more wheat on the farm. If I had pulled it out it would have been worth five or six cents more, but, anyway, I am carrying that speculation the cheapest way I can carry it. I know it is not bringing me what it cost me to raise it and if my credit will stand it I figure to carry it over till next year, because I know farmers cannot raise wheat for what they are selling it at today. The unfortunate part of the marketing system is that it throws all the grain into the channels of trade, puts it where expense starts on the wheat and the wheat has to bear it. That is my size-up of the situation.

As far as the Grain Exchange is concerned, the way I use it I believe it is a fine thing. I will be very sorry to see it go out. I believe it has got faults in it, a man can take futures and gamble on it, but the question before the Commission is not the effect of putting gambling out of business, but what is the best way of selling our grain to bring you the most money for it. I am a justice of the peace and I have a good many people come to me that have got into trouble and they tell me their troubles and I listen to them, and I will be glad to help them out; but after they have told me their toubles I tell them there is nothing criminal in this kind of thing and I cannot protect them against fool promises. It seems to me that is the way it sizes-up. People go into this thing and make fool bargains and then want to get out of it. If the Commission can do anything to stop that, they certainly have my highest regards and wishes.

Q.—You have been in the habit of selling half of your wheat in the fall and carrying the other half yourself. Therefore, until the last few years you have not used the futures market? A.—I never used the futures market.

Q.—Other people use it. Do you think the way they use it hurts you at all? A.—No,

Q.—Do you think it helps you? A.—Yes.

Q.—In what particulars? Does it get you better prices? A.—I think it does. In this respect, my neighbour that sells half of his wheat in the fall and turns around and buys in the futures market has made a market for his own wheat, and if there was nobody there to buy it, why, what would we do?

Q.—You think the futures market helps to make purchases for the wheat? A.—I certainly do.

W. G. ORCHARD (called).

By the Chairman:

Q.—You are a farmer? A.—Yes.

Q.—How long? A.—About twenty-eight years, I think.

Q.—You know the question. Will you tell us your opinion? A.—I may say that I think that the system of futures trading forms an element of safety for the farmer. If the buyers of grain were unable to hedge their purchases, they would have to make very sure they put the prices low enough that they would be safe when they came to dispose of it finally, and I think the prices would be greatly depressed if we had not this buffer. I think, further, that the futures market acts to regulate the flow of the grain trade, somewhat as the elasticity of the arteries in the human body act. If the arteries in the human body were solid, the drive of the heart would put the blood right to the far end and something would burst. In the same way, if all the wheat that was bought by the grain trade had to be immediately disposed of to the ultimate consumer, they would come against a deadlock. Either it could not be taken, or it would have to go through to the ultimate market. The futures market enables men to step in,—we can call them speculators or what we like. Myself, I can see no difference between the man who buys sugar, or groceries, or anything else, to dispose of at a profit, and the man who buys grain, thinking that later on he can dispose of it. We don't expect every man who buys a horse from us to swear that he is immediately going to use it on his own farm. If he gives a price for it, he is welcome to do what he likes with it, and the dealer on the market, I think, has a right to buy our wheat, hoping to make more of it. We don't expect to force him to lose it, or ask him what he is going to do with it. If there were no futures market, there would come a time when there would be no demand for export wheat and the price would drop and there would be absolutely no sale at all.

Q.—That means you think the existence of the futures market diminishes fluctuation? A.—I think so.

Q.—And on the whole gives the farmer a better price? A.—I think so. I think it also enables any company that is buying wheat to get a better price without running the risk of great loss. I think perhaps I might use an illustration which without going into particulars would illustrate the point. It is not intended to cast any reflection upon any particular company but only to show the effect of it. As far as I know, we have only one company in Saskatchewan that does not hedge, and that is the Wheat Pool. Now, you take any other company you like, take the other farmers' company if you like, the United Grain Growers. I think I am safe in saying this, that anybody who had a car of wheat at any time during the last three years and ordered the United Grain Growers to sell it for them would get the Exchange price for it. I think that has been expressed here before. There can be no doubt about that, I think. And there is no doubt about this, that anybody who handed in wheat to the Pool during the last three years would get the Pool's initial price, whatever that was. But it is also well known that the Pool's initial price was placed below the Exchange price on the start, and as the Exchange price came down the Pool's initial price was lowered in order to keep safe—four times, I think. So we are safe in saying this, that anybody who delivers his wheat to any of the line elevators, U.G.G., or ordinary line companies, would get the Exchange price; but anyone who delivered to the Pool would get the Pool initial price, which, we admit, is lower. Now look at the results of the two companies. The U.G.G., of which I happen to be a shareholder, a good farmers' company, for the last 25 years didn't lose enough to prevent their paying the dividends. There is no doubt about that. I got my dividend; consequently, they could not have lost very seriously by giving the biggest price. But the Pool, by giving a small price, claimed they are $12,000,000 in the hole, and I am willing to believe it. Now, I cannot see any reason why one could fall so short with the lower price, and the other with the bigger price should come out all right, unless one hedged and passed it through the usual channels and the other held it without hedging. And I may say that the conditions, such as they were, were all in favor of the Pool in other ways. The Pool paid no income tax. Other companies have to pay income tax. More than that, any financing that is done by the ordinary companies has to be done entirely on their own. Whereas the Pool signer delivers his wheat to the Pool at the initial price and if it is sold for more than that, immediately the Pool has the balance of that to use without interest as long as they wish. Now, I think that is a great advantage. It ought to give them a chance to do better than other companies. But, as I have said, the difference is so plain that I cannot attribute it to anything else but that the one used the hedge on the futures market and the other didn't, and the one came out safely and the other got badly into difficulties. Now, the idea has been put forward that if we did away with the futures market we would soon have a large national or international market. I think there would be no doubt if we had, there would be an international combination of buyers, and the representatives of the one great organization would meet the other and say what the price would be. But you could not guarantee that the price could remain for any length of time. If they made a bargain, say, at two dollars, a certain amount would be taken at

two dollars, but the time would come when they would take no more at two dollars and a new step down would have to be made. You can see the difficulty there would be in financing. It is all very well to say the bankers have financed it through the years past, but the bankers have done that on prices indicated by an open world market, and they will pay a price below and keep the guarantee so much below. That is all right. You have the world price, but if you come to the point where it is continual bargaining and continual stepping down, who is going to guarantee it?

There were a number of things, Mr. Chairman, I had thought of saying, but, coming last on the list, almost everything I wanted to say has been said and in many cases much better than I could say it, but these few points strike me as being pertinent.

Q.—Will you just tell us this: You approve of the system because it enables the whole chain of marketing to be done by the relative elimination of risks. Do you think that the farmer himself ought to go into the option market? A.—I do not.

Q.—Would you say that the proper system for the farmer is to sell his cash wheat? A.—My opinion is, taking it one year with another, that the man who sold consistently early in the market would come out as well as anybody.

Q.—Do you know of anything about manipulation? Have you any evidence that the market is manipulated against the farmer? A.—I have always been very doubtful about that, sir. I have always thought that was too vague. I am thankful to say I have not arrived at the unhappy state where I believe every grain man is a rogue and a thief. I think we have as good men in the trade as in any other and while, naturally, they are trying to make a profit, and I don't blame them for that at all, any time that it has been put up to me about manipulation and that sort of thing I have asked the same questions as you have, sir: "How is it done"? I have never heard any explanation to satisfy me how it was done, or that it was done, or that it could be done.

Q.—You have heard a good deal, I have no doubt, about the undesirable features of gambling, and etc., by people who are not interested in wheat, provided by this market. Do you think that the disadvantages of that would do away with the advantages to your trade? A.—I do not. I might say that the plea that has been put out that the futures market should be taken away to save that sort of thing is a lot of nonsense. If a man wants to gamble, if he doesn't do it with wheat, he will do it with something else.

THE CHAIRMAN—Thank you very much.

The Commission adjourned at 5.00 p.m.

Royal Commission on Grain Futures

10 a.m.,April 18, 1931,
Palliser Hotel,
CALGARY.

THE CHAIRMAN—Ladies and Gentlemen, this is the sixth session of the Royal Commission appointed to inquire into and report upon what effect, if any, dealing in grain futures has upon the price received by the producer. Our procedure is to ask our witnesses to address themselves to that question, and give us their opinions upon it, particularly any facts and experience, as well as their impressions, in their own language, and then the Commissioners clarify what evidence has been thus given, to satisfy their own minds as to what the witness intends to convey. There are also counsels present representing various interests, including counsel for the Commission, who may ask additional questions.

I would like to inform those assembled here, in case they have not appreciated it, that this is not a judicial inquiry conducted according to any judicial rules; it is an economic inquiry, and we conduct our proceedings in the way that we think best adapted to bring out the economic truths upon the question of our remit. I shall ask the witnesses to keep as far as possible within the questions put here, and to deal with other highly contentious or highly difficult questions only incidentally, to the extent to which they may touch upon this. Therefore, I hope none of the witnesses will resent if I remind them from time to time that we have only this question to consider, and that time would not avail us, if it were our duty, to go into the other large and very interesting and popularly debated matters. I give you that warning in order that I may save you the trouble of preparing any notes or bringing evidence upon matters extraneous, and also to save myself from having to interrupt the flow of eloquence that we may be listening to.

Now, I will ask our counsel, Mr. Sweatman, if he will tell us the order of our witnesses, and those who are ready.

MR. SWEATMAN—The witnesses, Mr. Chairman, that we have ready are Norman F. Priestly, of Calgary; H. B. McLeod, of High River; George E. Church, of Balsac; M. S. Ware, and Frank G. Brown, of Acme.

FRANK G. BROWN (called).

By the Chairman:

Q.—What is your occupation, Mr. Brown? A.—Farmer.

Q.—How long have you been farming? A.—Sixteen years.

Q.—In Alberta? A.—Yes, sir.

Q.—Now, Mr. Brown, you know the question. Will you tell us in your own way what you think about it?

By Mr. Commissioner Brown:

Q.—What part of Alberta? A.—The Acme district, within thirty miles east of Carstairs.

WITNESS—Firstly, I do not think that the Grain Exchange is of any use as far as the producer of wheat is concerned.

By the Chairman:

Q.—You are speaking of operations in futures? A.—In futures trading on the Grain Exchange because it serves no useful purpose at the present time. We can sell at any time to any person any working day of the year for immediate delivery at tidewater elevator, and we can sell wheat——

By Mr. Commissioner Evans:

Q.—Tidewater elevator, you mean on the Atlantic or Pacific Coast? A.—I believe either one.

Q.—Do you ship direct to Vancouver yourself and sell there? A.—No, I ship to the Pool.

By the Chairman:

Q.—You think that being able to trade in futures does not serve any useful purpose? A.—No, I can't see where it would.

Q.—Does it serve any damaging purpose? Does it hurt you? A.—Well, now, I don't know. In the winter of 1925, I was hauling wheat with sleighs and four horses to the elevator, and in the morning I hauled in a load, I think about 160 bushels, as near as I can remember. That was before radios were in general use. The morning's load was unoaded on the price of the day before. Then I came in right after dinner, about two hours later, hauling the same kind of wheat and the same number of bushels in the load, from the same bin, and my load was worth about $22.00 less than the load in the morning. I don't know what it was, but something was the matter beyond the power of any producer.

By the Chairman:

Q.—The market price had evidently fallen in the meantime? A.—About thirteen cents, somewhere around that.

Q.—You think it ought not to have fallen? A.—I think it ought not to have fallen in two or three hours.

Q.—Do you think it fell like that because there was a futures market? A.—I think the futures market had something to do with it. I think short selling had something to do with it.

Q.—You think that short selling is something that will upset the price you are getting to that extent? A.—I do.

Q.—And although that short selling took place in that short interval of time, the price that you got for it in the morning was satisfactory? A.—Well, it was a good price at that time, it was $2.00, or somewhere around there.

Q.—Then something happened during the day? A.—Yes.

Q.—And you found the price that you got later in the day was how much less. A.—About twenty-one or twenty-two dollars, speaking roughly.

Q.—How much a bushel? A.—Thirteen cents on that load.

Q.—It was a fall of thirteen cents on that day? A.—Somewhere around there, I couldn't be sure about that.

Q.—Did it raise again immediately after? A.—No, it did not, it kept going down.

By Mr. Commissioner Evans:

Q.—For how long? A.—Well, I don't know, I think it went from $2.00 down back to $1.35 or $1.40.

By the Chairman:

Q.—This particular thirteen cents was only a portion of the whole fall? A.—Yes.

Q.—It was on its way down, and this was one spot? A.—That is the spot I remember very clearly.

Q.—There was a very big fall at that time, and then afterwards it went back? A.—Yes.

Q.—So your fall that day, although it had to fall a long way during those months, you think it need not have fallen as far during that day? A.—I couldn't see how it would fall, and that two loads would vary so much in that short time, that is the thing that struck me.

Q.—Have you ever known of falls of this size at any other time when you have not been selling, and other people have suffered? A.—Yes.

Q.—Do you think it would be due to futures as well? A.—I think it may have had something to do with it.

Q.—Have you ever known of very rapid rises, of a rise of ten cents? A.—Yes.

Q.—Would you say that was due to futures trading? A.—It may have been due to futures trading.

Q.—And it was your idea, without futures trading you wouldn't have such a fluctuation? A.—I don't think they would be so violent.

By Mr. Commissioner Brown:

Q.—What time of the year would it be you had that experience? A.—I think it would be in January or February. I am not just clear on the time I remember it was along in the winter time.

Q.—Past December? A.—I think it was.

By the Chairman:

Q.—Had you been keeping your wheat there to get a better price? A.—No, we were just delivering. I don't know whether we could get cars, or whether the roads were bad, but we were just happening to be hauling at that time.

Q.—Is it your practice to keep your wheat, or sell it immediately in the fall? A.—No, we deliver right from the threshing machine to the elevator, because we are close to the elevator.

Q.—When you put in in the elevator do you sell? A.—We take the advance from the Pool, yes.

By Mr. Commissioner Brown:

Q.—Were you at that time delivering to the Pool? A.—Yes, I was a member of the Pool at that time.

Q.—So you weren't immediately interested in the price? A.—No, we were paid an intermediate payment after that.

Q.—I mean your original payment would not vary either? A.—Not a great deal, no.

Q.—It would not at all? A.—No.

By Mr. Commissioner Evans:

Q.—You think that the average price you got in that year was a good price? A.—Yes, I think it was.

Q.—$1.66? A.—No, that is 1925.

Q.—You said the winter of 1925. This period here (showing witness chart)? A.—That period.

Q.—Here is your fall you were talking about, and you probably struck one day there, and the next was down here (indicating). But your average price that year that you got was the highest price since 1920, or War years, that you ever got, wasn't it? A.—In 1925?

Q.—1924-1925? A.—Yes.

By the Chairman:

Q.—You have been farming for sixteen years? A.—Yes.

Q.—Have you been delivering grain to the Pool all that time? A.—No.

Q.—Before the Pool, what did you do then? A.—We delivered whenever we thought the price was good. We tried to pick the soft spots of the market, and deliver to the best of our ability.

Q.—You held the wheat until you thought you would get a good price to sell it? A.—We would sell some in the fall and winter.

Q.—And you took the risk of price fluctuation? A.—Yes.

Q.—Did you ever get a worse figure by waiting? A.—I think we got the best price one year that way.

Q.—By waiting? A.—Yes.

Q.—Did you lose by not selling outright in the other years? A.—No, we struck a fair market. I think probably we did not.

Q.—You got about an average figure by that policy? A.—No, I think we sold poor.

By Mr. Commissioner Brown:

Q.—You would have been money in pocket if you had sold the first market, is that what you mean?

By the Chairman:

Q.—That is you would say, "here is the wheat already to haul, and I will sell it at the price of the day, and I won't speculate by holding it"? A.—That is a pretty hard question to answer.

Q.—Did you ever buy any futures? A.—I bought futures once in 1928.

Q.—Had you any special reason for buying then? A.—Yes, I could not get cars for my grain at that particular time. It was coarse grain, barley and oats.

Q.—Something to do with the actual grain itself? A.—Yes.

Q.—It wasn't because you thought it was a particularly good speculation? A.—No, that wasn't the reason. I bought 5000 bushels, 3000 bushels of barley and 2000 bushels of oats. I bought these early in December and kept them until February.

By the Chairman:

Q.—Do you think you are a typical farmer, and that you are doing pretty much what others around you do? A.—Yes.

Q.—Have they, before the Pool, held their wheat to sell at an appropriate price? A.—Very few farmers can, because they have obligations to meet in the fall.

Q.—They haven't enough money to do that? A.—No, the average farmer has to dispose of most of his wheat as soon as threshed.

Q.—Does the average farmer keep clear of the futures market? A.—No.

Q.—They buy futures? A.—Yes, and it is a very expensive practice. Gambling is very bad.

Q.—You regard that as gambling? A.—Yes, I certainly do.

Q.—You wouldn't say it is part of the farmer's business to sell his wheat immediately in the fall and buy futures for May? A.—I think you would have as good a chance if you sat in a game of poker, as then you would have a kick out of your money.

Q.—Is that one of the objections you would bring to the system of futures? That it enables the farmer to lose his money? A.—Yes, they have done away with all other forms of gambling, and why not that.

Q.—You have heard the argument that the system of futures has a stabilizing effect upon prices, and that if you hadn't got it you would have a very low price when that wheat was being dumped by farmers, who were being pressed in the fall, with no futures price to balance it, and that price would be very high in May, if you got no advances from your banks? A.—I suppose when a lot of people buy probably the price would go up, but how about when they want to sell?

Q.—Isn't it the suggestion that futures enables May price to be linked up with the cash price to sustain it? If you had no futures price at all, and those farmers who had obligations and couldn't get advances because of the risk of fluctuation, would have to sell in the fall, whether they liked it or not? A.—No, they could hold it in the elevators.

Q.—If they had the capital to do it? A.—Yes.

Q.—How many farmers have got capital to hold through to May? A.—Very few. You would have to sell some.

Q.—There would be quite a considerable sale before, and the sales from February up to April would be fewer if you had no futures? A.—I don't think the average farmer holds his wheat—I think the statistics will show that few hold their wheat after the first of the year.

By Mr. Commissioner Evans:

Q.—On the farm or in the elevator? A.—On the farm, or even in the elevators for that matter. I hink a good deal of the wheat is out of the farmers' hands by the first of the year.

Q.—By the first of January? A.—Yes.

Q.—Let us see. In the last five years fifteen per cent has been delivered after the end of January, so there would be on the average twenty per cent or more in the farmers' hands on the 1st of January.

By the Chairman:

Q.—Do you think, Mr. Brown, that the chief evil, as you see it, of the futures market is that it tempts people to gamble who ought to devote themselves to their business, or it is the system that enables manipulation to go on agains them? A.—I think we have got them both.

Q.—Who does the manipulation? A.—I don't know.

Q.—How is it done? A.—I don't know.

Q.—You have just got the sort of feeling in your bones that something is being done? A.—Yes.

Q.—But you don't know how much or how it is done, or the way? A.—No, I am not an option expert, or futures expert.

Q.—You can't help us to find out if those practices exist, or how they are practised? A.—It is pretty hard. The operations of the Exchange are not open to public investigation and we don't know who buys or sells. We know men who have money buy on a large scale and sell on a large scale, but we don't know how much.

By Mr. Commissioner Evans:

Q.—Do you know that they do it on a large scale? A.—I guess probably five or six times the amount of grain grown in Canada is sold, maybe, in some months in futures. I have been in the Minneapolis market, and they sold more wheat in one day than came in to Minneapolis in the month. It wasn't grown; it was on paper. The farmer may win, lose or draw, but they always win.

By the Chairman:

Q.—They have always got a commission? A.—Yes, but if you make a few sales, hold for a couple of days and then buy, your price will be gone there, if you make any at all; and it is their interest to make the buying and selling, of course.

Q.—Then you would say that there is a third evil developed. The first evil, is that it tempts farmers too much, and that is the thing you can observe yourself and know? A.—I know that for a fact.

Q.—The second evil is that it enables manipulation to go on against the farmer, and that is an evil you only suspect, you don't know how it is done, or who does it, is that right? A.—Yes.

Q.—And the third evil is that operations on the Exchange enable all kinds of commissions to be paid, and to cause fluctuations in the price by rapid sales? A.—Yes.

Q.—And the cost of those sales comes out of the total production? A.—Yes.

Q.—You think if we had no futures you wouldn't have fluctuations? A.—Well, we would have fluctuations due to the world demand, and shortage of crop, but I can't see why wheat should fluctuate so violently in a day.

Q.—Remember the man who buys—I am not speaking of the Pool in particular—remember the man who buys, at the present the people who buy can do so on a basis that keeps him really free from fluctuation in price. Supposing he had to buy on the risks of fluctuation in price due to world changes, rumours, short crops, would he offer you as good a price if he had to take that risk? A.—Well, I don't know, Mr. Chairman, that is a pretty hard question for a farmer to answer, it is a big question.

Q.—We have had evidence from various people in various stages of the trade, and if they had to carry the risk of fluctuation themselves, they would have to have a much wider margin between purchase and sale, and they could not offer the farmer the average price that he now gets; what do you think of that? A.—I think that the buyer of wheat probably, if he came to the producer of wheat, or to those who have it for sale, would pay a reasonable value on the day that he bought it.

Q.—That means you mean the ultimate buyer or user, the miller in England should be in personal contact with you? A.—No, say, for instance, somebody that represents us, not necessarily the Pool, or a grain company, but somebody who had farmers' wheat for sale.

Q.—You think that he should be in contact with the miller in England? A.—I don't see why not.

Q.—You know some of these processes, whatever you want to do, take time, such as getting grain across the Continent, across the ocean, holding it in a mill ready for making flour. All those things take time, and during that time all sorts of things can happen to prices, and at present this gives them a system whereby they can insure themselves against change. Now, the evidence from them is that if they did not have that system they could not pay you as good a price? A.—I figure the cost would be always there if we had no system at all. Then take the hauling of the wheat——

Q.—I am not on the question of the cost of hauling, I am on the risk of fluctuations during that period of time. You see the period of time it takes to put a person in England in contact with you. All that time the element of risk is there, and they all tell us this system enables them to bear that risk. A.—But I have seen wheat in the last ten or twelve years at $2.45 and I have seen it at 59 cents.

Q.—Very often the price that the miller gets varies considerably? A.—Yes.

Q.—Somebody along the chain has to bear the fluctuations, and he tells us if he did, his spread on price would be very much greater, and he would have to offer you less over and above that. Do you think that is a false view? A.—No, not altogetther, but I think that would adjust itself. I think we can get along just as well, and that would work itself out.

Q.—That is a rather optimistic way of looking at it, unless you gave us some idea how it could be done. A.—We have been living more or less on optimism, that is all we have now.

Q.—Other people have to do the same, for instance, the people dealing with wool, and the people who have the most optimism is the railway trade. A.—They can sympathise with us.

Q.—It is not confined to you, these men are all living on optimism. A.—I don't think I can answer that question.

Q.—I won't bother you. I only wanted to see whether you had any view on that.

By Mr. Commissioner Evans:

Q.—You were referring to one occasion on which there was a violent break. Can you refer us to any other period in which there was a violent break in the last ten years? A.—Yes, 1929.

Q.—That went up? A.—No, down, I think up and down.

Q.—Those breaks do not often occur. There (pointing to a chart) is the one you refer to? A.—Yes.

Q.—You were delivering one day when the price was high, and you say on the second day there was a drop in the market. Even if you had not been delivering to the Pool you need not have sold your second load on the next day, you could have stored it, couldn't you? A.—Yes.

Q.—You need not have taken the low price, even if you had not been delivering to the Pool? A.—No, I had to store wheat, or pay storage.

Q.—Yes, you might have stored it. But as a matter of fact, in that year you came out very well, the best you have in ten years? A.—Yes.

Q.—You said you did not think that the Grain Exchange was necessary because any day you could sell at tidewater at cash, that is, you mean at Vancouver? A.—St. John's too.

Q.—You were referring particularly to Vancouver? A.—Yes.

Q.—Let us take Vancouver, the dealers there are prepared to buy from you every day for spot cash at a price relative to the quoted prices on the market. Are you aware where the majority of that wheat, that passes through Vancouver, goes? A.—It is distributed all over the world.

Q.—It goes to Europe, a larger proportion to the United Kingdom than to any other country. You realize Vancouver is from seven to nine weeks distant and during that seven to nine weeks price fluctuations may occur such as the one to which you refer. But do you think that the dealers at Vancouver would be prepared to buy from you at spot cash and pay you in full on the basis of those quotations although they would have to carry that wheat for that seven or eight or nine weeks and run the risk of meeting the fluctuations which you have experienced at times, if there was no provision by which they could insure themselves? A.—The only thing that would bother them would be the price going down.

Q.—And that would bother them a lot? A.—But what about it if it went up?

Q.—Could they stay in business, or would they, on that risk? A.—I do not know anything about it.

Q.—As a matter of fact anyway they will buy every day and pay in full the spot price on the basis of that day's quotations. It is a question, of course, whether that result would be achieved because of the fact that they could insure themselves or not. You use the expression, I think, that these costs of commissions, and so on, came out of the value of the wheat. Is it really your opinion of the futures market that what is made or lost or paid in commissions comes out of the wheat or out of the producer at all? A.—Does the Grain Exchange produce any wealth?

Q.—We would have to go into a definition of values and all that kind of thing to answer a general question like that. It is held, of course, that all those who perform services of different kinds do create values. You can call that wealth if you like. That is, your wheat down at your country station might have a certain value, and the railway company by performing a service of transportation, and ocean ships moving it over to Europe, have created more value, added to the value by their productive services. However, that is a general question. Put it another way, if there was no wheat grown at all would those commission men get their commission? A.—No, not out of wheat.

Q.—I guess not. What I am coming at is this, you have had one transaction in futures and you say you put up a margin didn't you? A.—15 cents.

Q.—And everyone else who either buys or sells has to put up a margin? A.—Yes. And that margin came out of the price of my grain too.

Q.—How? A.—I had to dig up the money.

Q.—You sold your grain and used some of that money? A.—Yes.

Q.—But everyone else put up a margin, and when the transaction is finally concluded the money is redistributed according to those who judge aright and those who judge wrong. All the money used for commissions or for paying the profits comes out of the margins of those whose judgment was not right on that situation. There is no assessment on wheat or on the industry outside to provide for the commissions that are made in the trade. However, that is merely incidental.

By Mr. Commissioner Brown:

Q.—You spoke of a drop of thirteen cents in one day. I did not quite get that picture. Does that indicate or did you intend to say that the price dropped over night or it dropped during the day to the producers? A.—The one load I sold in the morning was before we had the radio and our local elevator got their wire at noon, so the one load I sold in the morning, we were discussing it with the agent, it was based on the price paid yesterday and the load I hauled after dinner, the price had come in in the meantime.

Q.—So the closing price of the day before did not prevail the following morning at that time? A.—It did not prevail at noontime on the following day.

MR. COMMISSIONER EVANS—I do not think it would ever break that much over night.

MR. COMMISIONER BROWN—That is what I mean.

THE CHAIRMAN—It was not a break over night. You had the overnight price in the morning? A.—Yes.

MR. COMMISSIONER BROWN—The practice now, Mr. Evans, is it not, is to pay in the morning the closing price of the day before?

MR. COMMISSIONER EVANS—Yes. That price goes out now by radio. They send out the price twice during the day. A.—Twice, we get it every hour.

MR. COMMISSIONER BROWN—The price varies to the producer during the day? A.—Yes, certainly.

MR. COMMISSIONER EVANS—Now, by radio, they are better served in Alberta than in Manitoba or Saskatchewan apparently, because we were told that twice a day they radio out the prices, the quotations at that hour on the Winnipeg Exchange, and they are the prices paid to the farmer which may now vary twice during the day. Formerly they sent out the closing price of the day before by wire and that prevailed during the following day.

MR. COMMISSIONER BROWN—That is what I understood. They have changed that?

MR. COMMISSIONER EVANS—Yes.

By the Chairman:

Q.—Is all this radio activity good for the farmer or bad? A.—It keeps him away from his work if he is speculating on the market.

Q.—That is in his own hands, he need not listen? A.—You are right.

Q.—Is it good for him to know the prices every hour, sometimes they may be going up and sometimes down? A.—Yes, I think it is nice to be informed of what the market is doing, particularly if you have wheat in store or on the track. It gives you a chance to use better judgment in disposing of your wheat.

Q.—You might get a better price as well as a chance of getting a lower price? A.—I can tell you of an instance a few years ago. A farmer had three cars of wheat in store and the price was so much. One day he telephoned in and found that the price had gone down and next morning he slipped in and beat the agent to it by four cents.

Q.—He took it out of the agent's hands? A.—He beat the agent to it, that is all. I know that is sharp practice.

By Mr. Sweatman:

Q.—During 1928 and 1929 there was a great deal of speculation by farmers in your district? A.—Yes, there was.

Q.—In grain? A.—Yes.

Q.—And also in oil stocks? And all sorts of stocks? A.—No, our farmers speculate more in wheat.

Q.—Was there not a gambling fever generally in all sorts of stocks then? A.—Well, the farmer is not so apt to gamble in oil as in wheat. He thinks he knows more about wheat for some reason or another.

MR. COMMMISSIONER BROWN—If he did not have wheat to satisfy his gambling instinct do you think he would swerve over to stocks and oils? Especially in this district?

By Mr. Pitblado:

Q.—Just a question or two. The fever of speculation was abroad in the land all over in Canada in 1928 and 1929, wasn't it, you know that? A.—I think so, to some extent.

Q.—The fever seemed to have got all over, all our people, farmers as well as others, and a good many people learned a severe lesson, didn't they, by it? A.—Very severe.

Q.—Just one other question or two. You spoke about taking in grain when the price was $2.00 a bushel and in the afternoon the price was down thirteen cents. That did not make any difference to you because you got the same advance from the Pool on both loads, didn't you? A.—It would not make any difference to me but that was no fault of mine. If I had been selling I would have suffered that loss.

MR. COMMISSIONER BROWN—The inference he was trying to suggest was, that somebody was manipulating the market to have caused such a violent fluctuation.

By Mr. Pitblado:

Q.—I am coming to that. That was a very high price of wheat, wasn't it, you know that? A.—Yes.

Q.—And wheat kept going down steadily from that time on? A.—I think it did.

Q.—And has never reached $2.00 since then?

Q.—So that that thirteen cent drop was part of this deflation from the $2.00 down? A.—Apparently, yes.

Q.—You cannot tell, Mr. Brown, what caused that step that day to be thirteen cents, as compared with another step some other day, can you? A.—No, I cannot. Only I felt it was too much in a few hours.

Q.—I quite appreciate that. Now, you mentioned something else, I am coming to another point, you mentioned about a farmer bringing in his grain and selling it, I just forget the language that you used, but he got four cents better price than he should have got, is that so? A.—Yes. It was a sharp practice.

Q.—Let me put it this way. Do farmers hold, or do they in your experience put their grain in store and sell it, if it was in the elevator, sell it at what is known as the hard spot, in the old days, when they were selling? A.—They try and take the best price in the market.

Q.—That is the hard spot. You have hard spots and soft spots? A.—Yes.

Q.—The farmer, to your knowledge, used to try and take, if they could, the high spot and sell their grain when they had it stored in the elevator? A.—Yes.

JOHN GILLESPIE (called).

By the Chairman:

Q.—What is your name? A.—John Gillespie.

Q.—And your occupation? A.—The grain business.

Q.—Tell us before you give your opinion on the question before us, what your actual operations are as a grain merchant? A.—We have a line of elevators and we buy grain from the farmers and ship grain for the farmers and handle grain on commission.

Q.—You store for the farmer? A.—Yes.

Q.—You buy from the farmer? A.—Yes.

Q.—On your own account? A.—Yes, sir.

Q.—And you ship on commission? A.—Yes.

MR. COMMISSIONER BROWN—With head offices at? A.—Edmonton.

By the Chairman:

Q.—Tell us what you think on the main question which is the effect of the futures market upon the price received by the producer? A.—I do not know that I have any opinion to express. I volunteered really to come before this Commission, I received a telegram from the Board of Grain Commissioners, asking if I wished to appear they would make provision for me to do so, and being at the head of a grain company, one of the few grain companies that have their head offices in Alberta, and nearly all our elevators in Alberta, I thought I would appear before you and make one or two observations regarding the hedging of Alberta grain.

Q.—Yes. A.—And regarding the relationship between Winnipeg Grain Exchange futures and the marketing of the Alberta grain that goes through the port of Vancouver. If you like me to follow this out I have made out a skeleton memorandum so that I will follow that.

Q.—Yes, you read from your memorandum, that is the best way. A.—It is hard to describe it without.

Q.—Yes, you read from the memorandum. A.—About three quarters of Alberta grain probably is marketed through the port of Vancouver.

MR. COMMISSIONER BROWN—Practically all your wheat?

THE CHAIRMAN—Three quarters. A.—About two thirds or three quarters, I think, and the prices paid for this grain are based on Vancouver cash or spot prices at all country points where the freight rate is lower to Vancouver than it is to Winnipeg. But when the price is higher, including the differential in the freight, than it is at Vancouver, of course, the price is based on Winnipeg. In other words our prices are based on the highest market taking into consideration the differential on the freight to both markets.

By Mr. Commissioner Brown:

Q.—Do you find much variation in the two markets? A.—I will explain that, I am coming to that. This grain purchased, that portion of the grain that is purchased by the grain companies, is hedged in the Winnipeg Grain Exchange futures market and the point that I want to make is that this is not a very good hedge, it is not a safe hedge. It does not entirely eliminate the risk of loss as between the two markets.

By the Chairman:

Q.—It does not provide for the possibility of a change in the spread? A.—No, the reason, of course, is that the Vancouver cash price fluctuates independently of the Winnipeg prices due probably to Winnipeg, or rather the Vancouver port being an open port during the winter months and the lake ports being closed during that time. It is also caused by fluctuations in the ocean tonnage rate on export grain from Vancouver. They fluctuate a great deal at times depending upon the supply and demand of ships of ocean tonnage.

Q.—Where does most of that Vancouver grain go to for its final market? A.—Most of it, I think, goes to Europe. Quite a portion of it, I suppose, goes to the Orient. It varies at different seasons.

By Mr. Commissioner Brown:

Q.—Twenty-two million bushels went to the Orient in 1928? A.—Vancouver cash or spot prices quite frequently go from one to six cents over the Winnipeg price during the winter months, and just as frequently they go to one to six cents below the Winnipeg prices during the spring and summer months. The result of this being a loss of one to six cents on all grain purchased and hedged in the Winnipeg Grain Exchange during the winter months but not shipped to Vancouver and marketed until the spring and summer. It is impossible to get this grain marketed during the winter on account of the shortage of storage and sometimes the shortage of ocean tonnage, so that the grain has necessarily to be carried into the spring and summer months and the premium that you paid on this grain has gone and you still have your hedge in Winnipeg and the difference between those two hedges is the loss that occurred, from one to six cents depending on what the fluctuation is.

By the Chairman:

Q.—Supposing you had a futures market in Vancouver, would that get over your trouble? A.—I am coming to that. I submit if we had a futures trading market based on Vancouver deliveries that it would broaden our market and make a more active trading system for Alberta wheat and resulting in better prices for the producer. The Vancouver Merchants' Exchange have arranged and have machinery all set for futures trading markets but they have never been able to function so far, probably on account of there not being sufficient storage room there to take care of the cash contract grain as and when it should be delivered. This could be helped some by making the government interior terminal elevators in Alberta also deliverable points. They ship their grain to Vancouver. They are tributary to Vancouver. In the event of the Vancouver Merchants' Exchange not being able to function as a futures trading market I wish to suggest and recommend that the Winnipeg Grain Exchange put in a futures market there based upon Vancouver deliveries and also to government interior terminals. I am sure that if this was done it would avoid a loss of from one to six cents. It would eliminate the risk of loss to the grain companies and, therefore, it would enable them to work on a closer margin and result in better prices for the producer.

Q.—That is a very interesting piece of evidence. So far as from wanting to reduce the futures markets to nothing you would prefer to have it extended and improved in order that you would get a more complete hedge? A.—Yes.

Q.—And the benefit of getting that complete hedge would not remain entirely with you, people like yourself, but would go partly on to the farmer, you think? A.—Oh, absolutely.

Q.—It would enable you to give him better terms? A.—Certainly.

By Mr. Commissioner Evans:

Q.—That is getting a little beyond our remit to go into details like that, but very interesting. What have been the reasons, in your mind, why that Vancouver futures market has not really developed? A.—Well, I think one of the main reasons is the shortage of storage room.

Q.—For delivery, that is another matter, they have got ten million or more there? A.—Yes, they should have about another ten million.

Q.—But is it because there never developed a sufficient volume of trading there? A.—Yes, I think that is so.

Q.—Would you say it is necessary to have volume and large volume? A.—Yes.

Q.—In order to make a market? A.—Yes, I think, of course, they could probably start in a small way and ultimately build up an interesting market.

Q.—It would probably be a business only between hedgers out there, would it not? A.—I think it would be for some time.

Q.—And that would not create any very large volume? A.—No.

Q.—Has there not been the experience on this continent of more than one city in the United States having tried to develop a futures market without success? A.—Well,

New York City used to trade in grain but they were closed out during the war by the government and they never were able, seemingly, to start up again.

Q.—No, they are trying an experiment now with a market based on delivery at Buffalo? A.—Yes.

Q.—But on the Pacific coast there have been Grain Exchanges there too, but it would be your opinion that the reason those did not succeed was because they did not transact a sufficiently general and large volume of business in the Exchange to make the market possible? A.—Yes.

Q.—And they did not attract the spceulator at all? A.—Well, there is a good deal of speculation going on in Vancouver, I know there are two or three brokerage houses there who have private wires with the Winnipeg Grain Exchange, and I presume if they got going there that people might trade there.

Q.—If they thought it was a safe market to trade in, being narrower in volume? A.—Yes.

Q.—Well, your alternative suggestion was that the Winnipeg Grain Exchange might consider having a sort of branch market based on Vancouver delivery? A.—Yes.

Q.—Or delivery at Alberta interior terminals? A.—Yes.

Q.—From these interior elevators? A.—Yes.

Q.—You, of course, do not know whether they would think that practicable or not, but you do hedge yourself? A.—Oh, yes, we hedge, we have a system, and the routine of the office is to detail the grain just as soon as it is possible to do so, and immediately to sell it for future delivery.

Q.—And even although there is that risk of loss due to the conditions which you have mentioned? A.—Yes.

Q.—You still hedge your grain? A.—Oh, yes, absolutely.

Q.—And all you are anxious about is to secure the insurance by that sale? A.—Yes.

Q.—In view of Alberta conditions? A.—Yes.

By the Chairman:

Q.—Supposing you could not hedge at all, what would be the effect upon your trade? A.—Well, of course, if we couldn't hedge nobody else could hedge, I presume.

Q.—No, you would have to bear the fluctuation the whole time it is in your possession? A.—Well, it seems to me everyone who purchases this wheat from hand to hand would have to have a pretty wide margin on it to carry it until such time as they can, are able to sell it, unless it could be sold direct to some exporter or importer on the other side.

Q.—If it could be sold direct, somebody has to take the risk? A.—I mean to say unless you can sell it when you purchase it you would have to buy it on a very wide margin.

Q.—What would be the effect upon the price that you would offer the farmer? A.—Well, I do not know, it would be a good deal wider than it is at present.

Q.—You mean on the average you would give him less money? A.—I think the spread would be based probably quite a bit on the price of wheat, if it was very high the margin would be a good deal wider, if it was down very low, as it is at present, it probably would not be so very wide.

Q.—That would mean a fluctuation and the price of wheat would be increased? A.—I do not know as it would be increased, but the margin which the grain companies would have to have to secure themselves against loss would be increased.

Q.—Yes, I want to say two things: First of all, whether the average price which the farmer would receive would be lower than it is now, and whether the fluctuations would be more or less; you see, we have had evidence that the fluctuations would be more, and we have had evidence that the fluctuations would be less; now, I want to see where your practice would lead to; after all, you have to decide this problem somehow or other, if this state of affairs exists, you would have to be clear at some time in your own mind? A.—I fancy it would be a bearish element in the market if there were no hedges, it would make a dull market and make it unattractive.

Q.—Is that not a good thing? A.—I think if you do not have the market on which you can dispose of your grain, there will certainly be a break on the market and very naturally lower prices would obtain.

Q.—You are not quite clear in your mind whether the system of futures dominates fluctuations or not? A.—Well, futures, of course, follow conditions of the crop and the size of the crops and the weather and so forth, and I do not see that the actual cash price of grain would fluctuate very much differently than it does with a hedging market.

Q.—Yes? A.—Because, after all is said and done, the speculators are going by the sentiment that is created by the different damage reports which come out, and the weather conditions and insects, and so forth, which destroy crops, and they are almost at all times figuring on whether there is going to be a big crop or a small crop, and that affects the price up and down, so that I judge, I feel that there would not be very much difference in the fluctuation.

Q.—But, on the whole you think that the system of futures is good for the grain trade, including the producer? A.—Well, I do not know which way it could be improved upon, sir.

Q.—Well, now, we have had several suggestions made that it is not quite as good as it looks; first of all, any advantages which it may give to the farmer, the farmer immediately throws away by becoming a gambler; now, do you think that the disadvantages of gambling overweight what you might call the legitimate protection or insurance? A.—Well, if they do not—people will speculate and I think it is human nature to take a chance—if they do not speculate in the grain market I suppose they will speculate on the horse races, or when the Athabasca River ice will break up.

Q.—You do not do away with the evil merely by stopping this particular way in which it can be carried on? A.—Well, sir, I believe there was more speculation over two years ago in the stock market than there had been in the grain market in the last ten years.

Q.—Then the next point is that a futures system is not as good as some people make it out to be, because it is controlled by manipulators. Have you any views on these sinister actions upon the part of unknown people and unknown methods? A.—You mean these unknown people should have a bullish effect on the market?

Q.—Well, nobody has come forward and said "I am the manipulator and I am the bad person you are looking for." A.—Well, I have my own opinions but, of course, I do not——

Q.—Well, that is what I am trying to get out of you; after all, you have an opinion and I expect it is a good one, and you should share good things with other people. A.—Well, I think these small speculators, you know, and what you call the professional speculators, I think they are the little brown and black bears in the market.

Q.—I have not heard of a coloured bear, I have heard of the big ones and the little ones and the quick ones and the slow ones, but now we have the brown ones. A.—Well, I think these ones, they shed their claws once in a while and put on horns, because they have to do this, because they sometimes sell part of the time and then they have to turn around and buy part of the time, so that they are a sort of neutral element in the market, because they are not all bears at the same time, when one is a bear on the market there is some other bear that is a bull.

Q.—Mr. Gillespie, you, by no chance, by the name, happen to be Irish, because you have given us the best bull we have heard yet; well, now, this opinion of yours, you are just telling us you think there are speculators and they are speculating, but are they capable of manipulating the market? A.—No, I do not think so, their action pretty well neutralizes one another, as I mentioned, one is selling when the other one is buying back, what they have already sold, and they are pretty much between themselves, and what one loses to-day the other gains and some other day you get it back, and they are trading pretty much between themselves. They keep good movement in the market and take up the slack of this grain which has been hedged from grain companies.

Q.—So you have nothing very tangible to give us on the large question of the sections of the market acting adversely to the interests of the whole community? A.—No, I do not think that these little bears we are speaking of have any undue effect on the market.

Q.—What about big people, a very few powerful people getting together and deciding to run the market in one direction, have you heard of those? A.—I do not think there are any that I have heard of that can go short on the market to any great extent unless they have the grain to deliver. Now, there is where your three grizzly bears come in, these organizations, and there are two or three of them that have large quantities of unhedged grain on their hands; you take Russia, she sold a great quantity of grain on the Chicago market, the market was under government control and the question was investigated, she had the grain to deliver and she was only hedging her grain, and that brought the price down about ten to twenty cents a bushel, and the other grizzly bear, I think that has quite an influence on the market is the United States Farm Stabilization Board. They have a great accumulation of grain unhedged and it is a potential bearish factor on the market. There are other organizations, like our Canadian Wheat Pool, I am not saying this for any criticism of the Pool, it is a system, however, which I would like to describe as a bearish system, they have a large quantity of grain on hand and it is acting the same upon the market, it is all unhedged, and it has a bearing, it has a bearing on the depression of the markets of the world.

Q.—Do you think that all large countries so concerned that are carrying wheat unhedged are really a bearish interest at the present time? A.—Well, sir, I think so.

Q.—Might they conceivably be a bullish influence at some times, holding these markets off, if the world were hungry for wheat and they were holding it back for a rise? A.—Yes, but the United States Stabilization Board, the great United States, one of the greatest countries in the world, put up five hundred million dollars to stabilize that market, this bear went on the market to stabilize at certain prices. They bought, with the great United States and this five hundred million dollars behind them, they kept back that market until they couldn't hold it, the result was that they bought the futures and the grain they have now on hand was delivered on those futures but still they could not sustain the market, and I do not know that that has any bearing.

Q.—It has just this, Mr. Gillespie, I think these things are very interesting, which have happened in unnaturally interesting times when the whole price levels of the world were falling terrifically, but they are not our main problem, it is what happens in normal times when the price level of the world is fairly steady? A.—The trouble is, of course, these great organizations have made things abnormal.

Q.—Is that part of the cause of abnormality? A.—Yes.

THE CHAIRMAN—That is a very fair comment, of course.

By Mr. Commissioner Brown:

Q.—On this question of futures by way of insurance, as a dealer I want to get that picture right, if you had no futures market on which to hedge and thus secure yourself or insure yourself against possible loss, as I understand it you would have to place the responsibility for the risk on the farmer, that is, you would have to, not pay the farmer his price, you would have to take into consideration—I will put it this way, in paying the farmer his price you will have to take into consideration the possible drop in the market before you make delivery, that is correct? A.—Yes.

Q.—As I get that? A.—Yes.

Q.—That means you would have to provide for a fairly wide margin of security? A.—Yes.

Q.—On the other hand, if the price went up before you delivered, the farmer would not in any way get any advantage from you, is that true? A.—Well, it is just like any other, it would be just like any other contract.

Q.—Certainly, you would reap all the profit? A.—If you buy a piece of goods at a certain price, of course, you have both to stand on your agreement.

Q.—That is what I say, the result would be you would reap all the profit? A.—If we couldn't have——

Q.—If the price went up? A.—If we didn't have it sold in the meantime.

Q.—Quite so, if you didn't have it sold in the meantime? A.—Yes.

Q.—In other words, the farmer would not get any advantage at all if the price went up before delivery? A.—No, if he has already agreed to sell at a certain price.

Q.—I am assuming you have bought from him? A.—Yes.

Q.—You have fixed the price? A.—Yes.

Q.—Say you would not, in fixing that price, you would not set off the one against the other, the possibility of a rise as against the possibility of a drop, you would always provide for a safe margin against the possibility of a drop? A.—Yes, and I presume that is what would be done.

Q.—So, in the result, you see, the farmer would entirely lose if you took the futures market away? A.—Yes.

Q.—He is bound to lose? A.—Yes.

By Mr. Sweatman:

Q.—Mr. Gillespie, would it be possible to have a futures market confined to those actually operating in grain such as millers and elevators and so on? A.—I do not believe you can keep the others out.

Q.—But would the market be wide enough and liquid enough, would it be possible, would you be able to get your hedges if it was confined to actual dealers in grain? A.—No, I don't think so.

Q.—Apart from keeping them out, would it be a practical market? A.—The grain people are not speculators, I mean to say as a business, as a grain company you cannot speculate, you must sell your grain every day, if you don't sell your grain you are a speculator.

Q.—I understand that, but I was just asking your opinion as to whether or not, whether the market would be liquid and wide enough if it was confined to actual dealers? A.—I am afraid it would not.

By the Chairman:

Q.—You are dependent upon a certain number of people, not those handling grain directly, to direct the width of the market and make hedges possible? A.—Yes.

THE CHAIRMAN—Thank you very much, sir, we are much obliged to you.

NORMAN PRIESTLEY (called).

By the Chairman:

Q.—Your name? A.—Norman Priestley.

Q.—Your occupation? A.—The vice-president of the United Farmers of Alberta.

Q.—How long have you held that position? A.—Three months.

Q.—How are you going to give your evidence now, in your personal capacity, or representing the Association? A.—Representing the Association.

Q.—Have you ever been a farmer yourself? A.—Yes.

Q.—How long? A.—Not very long.

Q.—But what you are telling us now is the collective view of your people, is that right? A.—Yes.

By Mr. Commissioner Brown:

Q.—How many people does that represent? A.—If I may, I would like to present a considered statement.

By the Chairman:

Q.—Yes, but I want, first of all, you to tell us how the statement has been made, how

far it represents your farmers, how did you set about to get a representative view? A.—Knowing that this Commission was about to sit, and hearing it had an itinery which included Calgary, some of us considered the possibility of presenting views long expressed by farmers of our Association, and as we watched the progress of the Commission we realized in Winnipeg, at least, the farmers' point of view had not been presented, certainly not the view of the farmers of Alberta, and we were not able until this morning to know what the views of the farmers in the west were, because the news of yesterday's sitting was not available. So some days ago I sat down and compiled the following statement. The first part of it summarizes the larger body of opinion which is expressed in an addendum.

Q.—How did you get that opinion? Is it something you have just now collected from them in answer to questions, or is it what you know generally is their feeling? A.—It is what I know generally is their feeling, as expressed by remarks and resolutions at conventions over a period of years.

Q.—So you haven't had an opportunity of submitting it to farmers, evidently, and saying, "This is what we propose to say on your behalf," but you bring it to us in all good faith, saying you think it represents their view? A.—Yes, with this addition, that there have been representative farmers who have considered the statement with me.

Q.—Who have considered it with you? A.—Yes, do you wish their names?

Q.—How many of them, what kind of people? Are they a committee, or people just happening to drop into your office? A.—Both.

By Mr. Commissioner Brown:

Q.—Would it represent the views of your executive? A.—I think so.

Q.—I mean, has your executive been considering the matter as an executive? A.—They have not passed upon the statement, but they have heard portions of the statement. The matter is largely my own expression. There hasn't been time to go and gather any adequate body of people to consider the subject.

Q.—That is quite a fair statement. How many farmers have you in your Association? A.—The membership of it, sir, which I state in my statement——

Q.—Perhaps we will let you read the statement, and then we will question you further about it.

(Statement of Mr. Priestley produced and marked EXHIBIT 37.)

Q.—It is a statement headed, "Statement to the Royal Grain Commission by the U.F.A." Will you read it Mr. Priestley?

WITNESS—Mr. Chairman and Gentlemen: I have the honour to represent before this Commission a large body of farmers, the United Farmers of Alberta. This organization was formed twenty-two years ago by the amalgamation of two previously existing bodies, which had covered large sections of the province for some years.

The active membership of the United Farmers of Alberta stood on December 31st, 1930, at 18,105. This membership, together with that of the various co-operative commercial organizations which have developed within the United Farmer movement, aggregate more than 50,000 individuals engaged in agriculture.

Respecting the question under investigation we submit: (1). That among the farmers as such the view is almost universal that the system of trading in futures operates to their detriment.

(2). That if the Western Canadian agricultural community, dependent so greatly as it is upon the prosperity of the grain growing farmers, is to be enabled to meet export conditions intelligently and successfully, the right of the Grain Exchange and its concomitant system of trading in futures to function as a marketing agency of Canadian wheat must be demonstrated. Its operation must be brought to the light of day, and such measures must then be taken as the facts shall show to be necessary. At present we cannot get the facts.

(3). That legislation should be enacted giving to a public body the right to inspect and record each transaction of each individual trading on or through the Exchange, to the end that a thorough examination of the results of the system may demonstrate either that it is sound or that it is unsound, and make possible the elimination of such abuses as may be disclosed.

We submit further: (4). That as citizens in general we are concerned with the demoralization resulting from the widely extended practice of trading in futures, a form of gambling to which we are peculiarly susceptible on account of the predominance of grain growing and grain marketing in the economic life of our people.

The United Farmers of Alberta have advocated and urged for many years, at district and annual provincial conventions, the investigation of the Grain Exchange and of speculation in wheat futures. In January last 516 delegates from all parts of the province passed with complete unanimity a resolution here appended, calling upon Parliament to investigate speculation in grain, with a view to abolishing all marginal dealings not represented by real grain; and another resolution, also appended, was passed by the Board of Directors to whom it had been referred by the convention, stating that any benefits which might accrue from the operation of the futures market are impaired to producers by abuse of the privileges provided by the Grain Exchange, and asking specifically for a Royal Commission to investigate all matters concerning the Exchange.

We believe that more direct and better methods of taking our annual crop of from two to four hundred million bushels of wheat to world markets can be found. This belief found expression at our annual convention in January last in the following resolution:

Whereas the present price of wheat is far below the cost of production, and

Whereas a continuation of such condition will inevitably mean a lower standard of living for agriculture; and

Whereas no benfit of the low price is being passed on to the consumer in the way of cheaper bread:

Therefore be it resolved, that an International Conference be called representative of all wheat exporting countries, with the aim of stabilizing the producing of and the export price for wheat, to enable the grower to meet the cost of production and obtain a reasonable profit, and

Further, be it resolved, that Canada, through her Prime Minister, be the convener of such conference, which should be called at the earliest possible date.

We are seeking a rational basis for the operation of our great agricultural industry, and hope that the enquiries and findings of this Royal Commission will assist us to that end.

Attached herewith is an amplification of the ideas in the foregoing statement, which we submit for your consideration.

Do you wish to have it read?

Q.—Yes, please read the addendum.

A.—"Ever since grain and especially wheat began to be produced in such quantity in Western Canada as to require other markets than that provided by the new settlers then filling up the country, the business of wheat marketing has been enveloped in a veil of mystery behind which thousands of intelligent farmers have tried in vain to obtain a view of the facts. One fact has definitely emerged: the system makes large profits for certain elements operating within it.

Farmers as producers of wheat, not as shareholders in grain companies, not as individuals who have made profits by speculation in wheat, but farmers as such, have held strongly to the opinion for many years that the exchange has not functioned to their advantage. We are not concerned here with the academic question as to whether buyers of real grain or flour millers, for instance, could do without the Grain Exchange or futures market; whether capital enough could be found to buy the annual output of our farms within a few weeks or months of harvest; or storage facilities be provided; or continuity of supply guaranteed; or whether the buyers of real wheat, particularly the larger millers, could insure themselves against loss on account of, or in case of, a falling market. We are concerned chiefly with the fact that wheat, the major item of production in the life of two and a half million people in Western Canada, has become involved in a complex system, in which gambling is a prominent feature, to such an extent that producers, considered either singly or in great organized groups, cannot carry on their operations intelligently.

We are seeking to develop a rational system. Producers of wheat and other farm produce desire security in their business. A sense of security and well-being is impossible while operating in the production of a commodity subject to such violent and extreme fluctuations in price as is wheat under the present system of marketing.

Farmers in Alberta are intelligent. Their power to set up and maintain organizations has demonstrated that over more than a quarter of a century. They wish to conduct all their affairs in an intelligent and orderly manner. In nothing is this desire more manifest than in the marketing of their chief product, wheat. Their efforts have so far been rendered more or less ineffectual because they find themselves involved in a system which is without directive mind, and which appears to function only towards confusion.

While on occasions they have been borne to the crest of the prosperity wave along with this system, looking back over the years they find that they have spent much more time in the trough of poverty. Rightly or wrongly they maintain that a system which provides for the erection of expensive buildings in many cities, sustains luxurious brokerages offices and creates many millionaires, is conducted at their expense. They believe that "paper wheat" has too much influence on the price of real wheat.

They have been encouraged in that belief by such writers as R. W. Barnett, in Palgrave's "Dictionary of Political Economy", who states:

"It has been urged that the sale of futures has a direct effect upon prices equal at least to that of a large increase of supply, and has, in the case of wheat at least, caused a prolonged depression of price beyond the minimum cost of production." (Vol. II., p. 175)

They have thought such statements as the following from no less an authority than a former president of the Liverpool Corn Trade Association (John H. Huback, Enc. Brit. XIII., Vol. II., p. 254), to be of significance, and applicable to Winnipeg and Canada:

"At Chicago the trade is in contracts for future delivery and it is not surprising that this business in contracts should annually reach an aggregate far exceeding the United States yearly wheat crop."

The farmers would like to sit at the bargain table with other producers of real wheat and discuss business with the people who are making their wheat into flour, with those who are making that flour into bread, those who are distributing that flour and bread,

and with the consumers of bread. When such a conference is made possible, they will be able to take steps so to organize production that their returns from similar labour and expenditure of capital will not fluctuate from one year to another to the extent of several hundreds per cent.

There is another phase of this question which may or may not be considered germane to the objects of this inquiry, i.e., the fact that many farmers themselves engage in futures trading.

The intense interest of the farming community of Western Canada in the marketing of their wheat is easily to be understood when we consider that it is the basic industry supporting the two and one half million people of the three prairie provinces. The elevator, the physical embodiment of the wheat marketing business, stands out on every horizon. Wheat is an ever present factor in the thought of the people. There are 5,787 elevators in Western Canada. In Alberta alone there are 1,707 elevators.

The value of agricultural production in 1927, the latest year for which figures are given in the official "Canada Year Book" was as follows:

Manitoba, $98,622,000.
Saskatchewan, $364,628,000.
Alberta, $300,875,000.

What proportion of agricultural production is strictly grain marketing I am not in a position to say, but have reason to believe that it is very large.

The newspapers of our province have more to say about wheat at certain seasons of the year than about any other aspect of our life. In some instances quotations of wheat futures appear next to the title on the front page of every issue. The price of wheat, particularly when a good crop is in sight, is the most engrossing thought to tens of thousands of our people. It is therefore not to be wondered at that they should be intrigued with the idea of making money on the grain exchange. Fighting from year to year against insect pests, drought, hail, frost and in some cases too much rain and snow, many farmers have come to regard wheat growing as in the nature of a gamble. Seeing men making profit and in some instances becoming rich in wheat speculation, many are inclined to cease attempting to discriminate between what they consider to be two forms of gambling. A survey of the province conducted a few months ago showed that between one hundred and one hundred and fifty-five million dollars had been lost by the people of Alberta, urban and rural, by speculating in wheat futures during the twelve months preceding June, 1930."

By Mr. Commissioner Evans:

Q.—What survey was that? A.—That was a survey conducted through line elevators.

Q.—By whom? A.—By members of the staff of the Alberta Wheat Pool.

By the Chairman:

Q.—Did people tell them specifically what they had lost? A.—I have a few facts which follow along that line.

Q.—Did people tell them what they had gained, or what some others had gained? A.—I think so.

Q.—Is this figure of net loss by the people, or the loss by the people who were losing? A.—It was the net loss.

Q.—After taking into account what was gained? A.—Yes.

Q.—Have people been equally communicative as to what they have lost, with what they have gained? A.—I don't think so.

Q.—They are not as a general rule.

By Mr. Commissioner Evans:

Q.—Let us be clear, you are the representative of the Alberta Wheat Pool, and you went to a brokerage office and found out from the accounts how much had been lost? A.—The members of the farmers' community, members of our Wheat Pool, who are a large portion of the members of our farming community, have inquired from local bankers, and have inquired at local elevators, the result of that inquiry leads to this conclusion.

By the Chairman:

Q.—Do you find people are more prone to brag about what they gained, in the club or after dinner, than there are people to grizzle about what they have lost? A.—Certain types may, but not many.

Q.—As an old revenue man I think they are more prone to talk about gains than losses.

By Mr. Commissioner Evans:

Q.—Are these estimates? A.—Estimates ranging from one hundred million to one hundred and fifty-five million dollars.

By the Chairman:

Q.—You will finish your statement? A.—Yes, the estimates run all the way.

By Mr. Commissioner Evans:

Q.—Do you mean some farmer lost $168,000? A.—That is the statement we have received.

Q.—That some farmer lost that? A.—I am not sure he was a farmer.

By the Chairman:

Q.—We are dealing with the people of Alberta here, so your investigation went farther than the farmer. A.—Yes. "Individual losses ran all the way from $168,000 down. In some instances it was reported that the farmers had lost everything, land, crop, equipment. Local bankers have stated in many instances that losses in their communities have ranged above $100,000.00. An estimate of the losses in the district tributary to one of our best Southern Alberta towns exceeds one million and a quarter dollars. On one section of railway less than 90 miles, the losses in a very sparsely settled district amounted to $300,000.00.

The natural desire of the grain growers, and for that matter almost the whole of the Western Canadian community, for a higher price for wheat causes them to speculate for a rise. Sudden drops brought about by bearish influences which if they exist in rural communities have never yet been discovered, have drained us of enormous sums of money and have played no small part in bringing agriculture to the ruinous condition which now obtains.

Thinking farmers in Alberta, and Western Canada in general, have long believed that behind the apparently blind functioning of the Grain Exchange there are frequently at work influences calculating the making of huge profits out of price fluctuations. They have had reason to suspect that a psychology of prosperity with its high prices for primary products has been deliberately encouraged; and that, at times favourable to the interests of the manipulators, the market has been suddenly forced down in order to "make a killing" for these interests, who do so by turning suddenly'from "bulls" to "bears.'

An outstanding instance of a rapid and demoralizing decline is that of the spring of 1925, when quotations on No. 1 Northern descended in about one month from $2.20¾ to $1.35."

By Mr. Commissioner Evans:

Q.—What were they two months later? A.—I cannot say, I have not that in my statement.

Q.—Hadn't you better revise your statement and put a few things like that in? A.—I think it could do with substantial revision, Mr. Chairman. All statements can. I find it necessary but not such as to change, however, the general thought.

By the Chairman:

Q.—You might touch it up on the facts and balance it. A.—Yes, this has been prepared, as I said, in a hurry.

Q.—Yes, we are making allowances for that? A.—We had to make this over night and it is not easy to ascertain the facts.

By the Chairman:

We shall not criticize the form of it.

A.—"Prices on the Exchange are said to be governed by world crop conditions, i.e., by the law of supply and demand. There is little, if any, genuine doubt that the speculative elements, the gamblers on the Exchange, frequently and over long periods exercise a greater influence. A leading authority on this subjct has been quoted to the effect that as the result of a study of the major transactions of the 1926 wheat future, the administration of the Grain Futures Act of the United States was led to the conclusion that without the accumulation of long or short lines of millions of bushels by a very few leading speculators the major swings in the prices would not have been so large. It was stated that particularly pronounced is the relation of price to the market position of the leading speculators on the days on which net purchases or sales of large proportions occurred, and that it was by no means a coincidence that the price and net trade moved in the same direction on 24 out of the 28 of these individual days on which the net trading of the five leading speculators aggregated 2,000,000 bushels or more."

By the Chairman:

Q.—Give your authority. A.—J. W. T. Duvel, U.S. Grain Futures Administrator. "In other words, the price which the farmer receives for his product is not the measure of its value to the consuming public, but the result of the operation of a system which has no regard whatever to his equities"

It is for these reasons among others that for thirty years the farmers of Western Canada have regarded speculation in wheat generally and the activities of the Grain Exchange with its apparently inevitable accompaniments in particular, as being unfriendly to themselves. Their convictions along these lines have been strengthened in many ways. When, for instance, a large body of farmers organized a company, "The Grain Growers' Grain Company," in 1906, they were bitterly opposed by the Grain Trade, whose opposition found expression, among other ways, in denying them a seat on the Grain Exchange. Not until the Government of Manitoba interposed was the right of the farmers to a seat on the Exchange conceded. In later years they had the experience of having the Dominion Government, through its wartime Board of Grain Supervisors and the Canada Wheat Board, handle three successive crops of the entire Dominion and witnessed the disastrous decline of wheat prices which followed the withdrawal of that control in 1920, when the Grain Exchange was again allowed to operate and the open futures market reestablished. The idea of "orderly marketing" gained ground, a conception obviously in contrast to the conditions then prevailing.

The efforts of the farmers to form a co-operative marketing organization of their own, the Provincial and Canadian Wheat Pools, met with great resistance from members of the Exchange. The obvious interest of the opponents of the Pool in maintaining this marketing machinery for their own use has naturally been weighed against the protestations of the Grain Trade that the law of supply and demand, with its corollary, the futures market, must be given free rein.

Farmers have concluded that the feverish interest of speculators in futures accounts to a great degree for the eagerness with which crop reports are compiled and read and have many times over the years watched a good crop maturing in the field and read news items in the press about bumper yields, and at the same time of declining price. Rightly or wrongly they have deduced that the price decline, which has robbed them of financial returns anticipated on the basis of previous price quotations, was brought about not so much by a contraction of demand on the part of buyers due to the possibility of a world surplus with resultant low prices, but by the operation of the speculative element in the futures market.

Convictions on the part of the producers that the system of trading in futures acts to their detriment as previously stated have not been verifiable. We have found, however, that we in Canada are not alone in our distrust of and desire to curb or get rid of this system. Producers in the United States are discovered who have similar distrust and desires. They have moved effectively and now have the Grain Futures Act. They also have their Wheat Stabilizing Corporation.

This present inquiry has been instituted by the Government of Canada in response to frequent urgings over the years. The following are the resolutions referred to in the opening paragraphs of this memorandum.

"**Investigation in Grain Speculation**—Whereas, we consider the Grain Exchanges in their present form have a detrimental effect for the producer in the marketing of his grain;

"Be it resolved, that we request Parliament to institute a thorough investigation into the speculation in grain with a view to abolishing all marginal dealings not represented by actual grain"

By Mr. Commissioner Evans:

Q.—What date? A.—January 20th to 23rd, 1931, in this City of Calgary.

WITNESS—"**Inspecting Grain Brokers' Books**—Whereas, the market quotations of the price of Canadian wheat on the Liverpool Corn Exchange remain steady from day to day and often from week to week without fluctuating more than one or two cents either way; and

Whereas, we believe that the excessive fluctuations, often amounting to several cents in one day, in the price of wheat on the Winnipeg Grain Exchange are caused, largely, by the manipulation of speculators; and

"Whereas, the Grain Exchange should be considered in the light of a 'Public Utility' and we believe the benefits of the futures markets are being impaired to the producer by the abuse of the privileges provided by the Grain Exchange;

"Therefore be it resolved, that we request the Government to set up a committee of the House of Commons or a Royal Commission to investigate all matters concerning the Grain Exchange."

—United Farmers of Alberta Convention Resolution referred to Board of Directors. Passed by the Board of Directors, January 26th, 1931.

It is the hope of the farmers of Alberta expressed through their farm organization that this Commission will take away the cloak of mystery from the operations of our grain marketing system and disclose the real facts. It is their hope also that should it be found desirable in view of the nature of grain marketing in other parts of the world, if by any chance their desire for one national agency whether under producer or state control, be not attained, that provision will be made to compel the making of regular records and reports of the operations of the Exchange and that some effective curb will be placed upon futures trade such as will make possible intelligent and profitable operation in the business of producing and marketing grain.

We do not pretend to be able to give answer to the question before this Commission. The effect of futures trading on the price paid to the producer we believe to be detrimental. But we have no positive proof—there can be no proof so long as the operations of the Exchange remain shrouded in mystery. For the two principal reasons adduced, however, first, that the mystery surrounding grain marketing renders intelligent action by the producers in the regulating and conducting of their business practically impossible; second, that the futures market provides an incentive to a form of gambling on such a wide scale that it threatens the stability of the economic structure of all Western Canada. We urge, therefore, that legislative means be provided for full and complete scrutiny on the part of governments and interested members of the public of Grain Exchange operations.

All of which is respectfully submitted.

By the Chairman:

Q.—I am sure the Commission thank you, Mr. Priestley, for having given so complete and well expressed statement of your views in such a pressure of time. It will be of great assistance to us in fixing your views. We expect you believe this represents the views of the majority of your members? A.—I do, sir.

Q.—There may be, of course, some ones amongst them who would not express them in exactly this way or who do not know themselves all you have told us? A.—Quite so.

Q.—You think that this represents the majority of their views? A.—I believe that sincerely.

Q.—As I understand it, the purport of your statement is this, that you do not suggest that there is no ideal system of trading in futures which might not be to everybody's advantage but that you do suggest that the system of futures as worked is detrimental under three heads: First, that there are existing under it actual abuses? A.—Yes.

Q.—And secondly, that there is a degree of secrecy? A.—Yes.

Q.—Or lack of public information which makes people feel, even if there are no abuses, that there might very well be? A.—Yes.

Q.—And that that gives rise to a psychological distrust of the situation? A.—Yes.

Q.—First of all, you believe there are these defects in the system? Second, that the general fact it is not public and open gives rise to feelings of suspicion and distrust, which in themselves are detrimental? A.—Yes.

Q.—And third, that the scheme as now worked provides too much facilities and too much outlet for the natural gambling instinct of the people and makes it too easy for them to devote their attention to something other than their main occupation, gambling in wheat futures? A.—Yes.

Q.—Does that represent your main views? A.—That represents my main views, yes.

Q.—So that anybody discussing the economics of futures in the abstract and the carrying of the risks in a particular way, without abuse and without secrecy and cutting out the undesirable people, you would not say that such a scheme would be detrimental to the producer necessarily? A.—Not under our present general system, the world over.

Q.—If the other markets in the world were working under that system of carrying the risk you would not suggest that if it could be purified in the three ways you have suggested that it could not be to the advantage of the producer? A.—I have no means of knowing that it could be to the advantage.

Q.—Have you ever thought, in your own mind, "Well, this is an impossible system to purify, you can never cure the gambling instincts of the people. Let us wipe it out and have something different. Let us have an insurance scheme." A.—Yes, I have thought of it.

Q.—Have you ever been able to construct one that you think would be workable? A.—No, I am not an expert in the insurance field.

Q.—You do not know what is an insurable risk in time or in place? A.—No.

Q.—That brings you back after all to the suggestion here, that this particular system can be altered in several ways? A.—Yes.

Q.—I would like to take you through two or three of the items in that statement which it would be useful to the Commission to have a little more information on. Your Annual Convention in January last, that passed these resolutions was, no doubt, very much moved by the circumstances arising out of your end of a very large world wide movement? A.—Yes.

Q.—For example you epeak about the present price of wheat being far below the cost of production and lowering the standard of living for the producers and the benefit of the low price not being passed on to the ultimate consumer. You want, therefore, something which will stabilize the producing and export prices. You would not suggest there is anything peculiar to wheat or any commodity in which futures marketing exist from what is happening all the world over. In sugar, in wool, in tin, in rubber and all kinds of stabilized products, that is right? A.—Yes.

Q.—Haven't you got the same phenomenon that the present price is far below the cost of production in several commodities? A.—Yes.

Q.—Including silver? A.—Quite so, only, as I have stated in our statement, sir, that wheat is a dominant factor in the life of our whole community and the fact of people speculating——

Q.—Could we not have a Commission and have the same words used in almost every other country in the world and substitute, say, tin, for wheat and it be equally true? A.—I think so, but it would not be as universal.

Q.—What I am trying to do is to distinguish between the things that arise in connection with this world wide depression from something that happens in connection with the futures marketing because these things can be said, cannot they, surely about most other primary products whether there is a futures marketing or not? A.—Yes.

Q.—Your statement deals with the fluctuations, and quite rightly so, they are concerned with the tremendous violent fluctuations, but are the fluctuations in this commodity in which there is futures marketing worse than the fluctuations in other commodities in other parts of the world where there is no futures market? A.—I cannot give you a categorical answer to that question. I have seen instances of great fluctuations in other primary products but I do not know how universal they are or how frequently they occur.

Q.—You would not say here that the reason you object to futures marketing is that wherever there is futures marketing it shows at the present time larger fluctuations in the commodity in which it deals than in other cases? A.—No.

Q.—I want to make that clear. These first two or three pages, where you are talking of fluctuations, are not really an indictment of the futures system. They are really something that is shared with every other primary product whether there is a futures system or not? A.—Yes, I think so.

Q.—That is very important for us, because it enables us to get rid of a lot of the ground I should want to go into if you were suggesting that these things were hanging upon the existence of the futures market. But if we can take it that, where you have a very severe strain upon your primary product position, it is the effect, in your contention, from the defects of the futures system rather than being due to the futures system, then we have got an easier task? A.—Yes.

Q.—You would not object to that view? A.—I would not object to that view.

Q.—You say in the beginning of your addenda: "Producers of wheat and other farm produce desire security in their business. The sense of security and well-being is impossible while operating in the production of a commodity subject to such violent and extreme fluctuations in price as is wheat under the present system of marketing"? A.—Yes.

Q.—There is a suspicion there that fluctuations are worse than in other commodities where the futures do not exist. Your feeling is, not merely that futures are bad in normal times, but they are bad and even worse in times of severe world depression? A.—Yes. The magnitude of the operations in wheat is the thing that crops up in my mind. Copper and rubber and the other things you have mentioned do not loom so large in the minds of as many financiers, shall we say?

Q.—Not in this part of the world? A.—I may be parochial in my point of view but I thought that was so generally.

Q.—Populations that are affected by these different things are concerned. If you were discussing wool in Australia you might find the same? A.—Yes.

Q.—Now I am not going to bother my head talking to you about matters relating particularly to the present world depression that are common to all these things because I do not think you really place very much upon that. You are speaking now of the operation of the futures market in normal times? A.—Yes.

Q.—I will keep you to that for the moment. You put a quotation without a comment and from that I assume you have no further observations to make about it? A.—No.

Q.—A quotation from a Liverpool authority, about Chicago, where you refer to the aggregate of the contract far exceeding the yearly wheat crop? A.—Yes.

Q.—Now what would be your idea, that the contracts dealt with should be the same as the yearly wheat crop? A.—It could scarcely be that could it?

Q.—That is what I want to know, could they be the same? A.—Not with any system of Exchange such as we now have.

Q.—Would they need to be more? A.—I think they would.

Q.—How much more, would you be alarmed if the figures were twice as great as the actual crop? A.—Well, if every sale is balanced by a purchase, of course, there would be that tendency.

Q.—They would be, at least, twice as great? A.—Yes.

Q.—Supposing not only every purchase and sale accounts for the same wheat twice over, but you get purchases and sales all along the line for the same wheat, that is you get futures at the elevator? A.—Yes.

Q.—And then you get futures further on with the importer and miller? A.—Yes.

Q.—And the same grain is the subject of future transactions? A.—Yes.

Q.—Each man doing his best to rid himself of fluctuation while the wheat is in his charge? A.—Yes.

Q.—Is it possible you could get in statistics a very considerable roll-over of figures without anything illegitimate or bad? A.—I think so, but to offset that line of thought I might say we have information given us from time to time, for instance, that the operations on a particular Exchange, say the Chicago Exchange, during the recent occasion in Russia exceeding one hundred and sixty million bushels in one day. Now we have no means of knowing just how many transactions, repeat transactions, that covered. Only to the normal technical man, to the farmer, for instance, there is a feeling that here is a rolling up.

Q.—Do not let us bother about such an exceptional thing as Russia, this quotation you have given me is from the 13th Edition of the Encyclopaedia of Brittanica and is some years old? A.—Yes.

Q.—And may be regarded as relating to normal times? A.—Yes.

Q.—Now, if you see statistics four times as great as the crop, that might not worry you, but if you saw them forty times greater, it would worry you? A.—Yes.

Q.—Now, at what point would you begin to worry? A.—I think the state of worry would be induced, not so much by the figures in the futures market as by the condition of the individual with respect to his own business, if he were not doing well and saw these fluctuation and saw this enormous amount of trading he might have some disposition to worry nearer the four times than he would if he were doing well.

Q.—That is to say you have a moveable zone of worry? A.—Yes.

Q.—That is some days when your liver is bad you worry? A.—Yes.

Q.—And another day when it is good you would not? A.—Yes.

Q.—You are a very well informed man, in the centre of things, able to size things up, and I want to see what is the reaction in your mind to this particular trouble or abuse, you perfectly realize that to identify the figures is impossible? A.—Yes.

Q.—You realize that? A.—Yes.

Q.—Then there must be a point at which you think some abuse has crept in and I want to know for my own information, not just to worry you, but I want to know quite honestly what kind of a figure with this order of magnitude, when there is something where you think an inquiry is desirable? A.—In answer to that I must confess I am not sufficiently acquainted with the operations of the futures market to be able to gauge my feelings in that respect. I am not a technician. I do not think many farmers are, and we do not know, but we just vaguely feel there is something wrong between the one level and the other level.

Q.—Of course, you do appreciate the point which is so frequently made if you are going to have a smooth and a good hedging system to enable hedges to be got quickly and securely, that probably at some time in the stage you have to have some speculative element in to balance it? A.—Well, that is——

Q.—If the holders of grain are all tending to move in one direction, someone must balance it, and those people may not be either sellers or buyers of grain, so there is, perhaps, an element of legitimate speculation, other than gambling, at this stage, that in a system is necessary to balance, a system such as we have been discussing? A.—Yes, taking your qualification "under the system."

Q.—Under the system? A.—Yes.

Q.—Without asking you to accept the system, but I am only saying, supposing you are playing the game according to these rules, that this game does involve certain people coming in who do not themselves desire to handle the wheat? A.—Yes, accepting your qualification.

Q.—They are just insurance people, insuring, acting, as discharging a particular function for the community in this way, they are expert people who make a study of the market, I am not thinking of the people who come in from the outside with a purely gambling instinct, I am thinking of the people who are dealing in hedges? A.—Yes, of course, we do not think so much in those terms, those of us who have organized, for instance, and maintained the Wheat Pool for the last seven or eight years, we think more in terms of a direct contact with the consuming world and we are seeking, rightly or wrongly, to eliminate all the stages between.

Q.—Well, under such a system, whether you call it a Pool, or a co-operative organization, somebody has to carry the risk of fluctuation in price? A.—Somebody, the farmers.

Q.—Well, it is the farmer eventually who is carrying it in the finish? A.—In the case of the Pool it is.

Q.—And the only risk-bearing insurance which you get there is that you pool one farmer's risk with another's, the farmers as a whole are bearing the risk of the fluctuation in price? A.—I would think so.

Q.—But they hope by doing it in consort, together, to lessen the individual risk and take it as a complete risk of the farming communities? A.—Well, I see no one else to carry the risk if they make direct contact with the consumer.

Q.—They have to carry it themselves? A.—Yes.

Q.—And they cannot expect to be exempt from a world-wide movement of price? A.—They cannot expect, no.

Q.—Particularly in a product which is a world product on a common market, I mean there is no way in which they can say "Whatever happens, we can get prices that will cover our cost of production"? A.—The producer must pay it unless you have a world pool, yes.

Q.—Do you agree with that? A.—That is what we are working towards, of course.

Q.—You want a world pool? A.—Yes.

Q.—For the moment you have not got it, and while you have not got it the farming community under any co-operative system like that, without hedging, must carry the risk then? A.—May I correct the last statement I made, that is, we are not working towards a world pool necessarily, we are working towards a world understanding, that is a better way to put it, not necessarily one marketing organization.

Q.—That is right, is it, we have to look at the fact, that there is a system of futures? A.—Yes.

Q.—And a system of futures in Canada? A.—Yes.

Q.—And so long as you have futures in other places, and you cannot abolish them, no system for carrying the risk other than a system under which the farmer carries it, you cannot get away from that? A.—No.

Q.—These people who do not come into this co-operative scheme, you have a fair knowledge of such farmers? A.—Yes, I have met many of them, some are personal friends of mine.

Q.—Do they, in the majority, carry the risk themselves by holding their wheat? A.—Well, I cannot say as to numbers or to proportion, I know of instances of both kinds.

Q.—Is it a good thing or a bad thing for the farmer to take the risk of a fluctuation in the price for the first four or five months of the crop year? A.—I think conditions would differ from time to time, from year to year, in some years it might be a good thing and other years it would be a bad thing, I know some farmers who keep their crop two years.

Q.—Cannot you give me an average figure, cannot you tell me whether you would advise a farmer, just an average farmer, one year with another, to do one or other of those things, would you say to him: "Now, I cannot be seeing you again for ten years and, therefore, you will have to have my advice now, and if I am giving it to you for ten years in advance, the best system for you to adopt is to hold your wheat or to sell it"? A.—You are speaking of the non-pool farmer or the non-co-operative farmer?

Q.—Yes? A.—I do not think I should presume to advise him, I think it would be presumption for me to advise him.

Q.—You have not had enough experience to give an answer to that? A.—No.

Q.—Have you any knowledge of the operations of non-pool farmers who do hold their wheat? A.—No, I think there has been a tendency to erect more granaries in the last few years and keep more wheat on the farm, but there has always been a tendency to get rid of it more quickly because of the steady development of motor trucks and these combines.

Q.—Well, has not the extent of the farmer's own capital a good deal to do with it, is he not only too glad to discharge his liabilities on the crop? A.—As a matter of fact, here, a great many of them are compelled to discharge their liabilities.

Q.—And they are compelled for financial reasons, to discharge their liabilities? A.—Yes.

Q.—And they are not allowed, they have not enough capital to hold their wheat? A.—No.

Q.—Now, the next people who take it from them, they also have to get financed, many of them, by the banks? A.—Yes.

Q.—And the banks do not like loaning money to the people who buy the farmers' grain if there is a risk for those people on account of the fluctuation in price; at any rate, they do not like advancing so much money? A.—No.

Q.—Do you think that it would be bad for the industry if there were no such protection as hedging gives to those people? A.—Well, all the authorities I have been able to read, and my observations tend to the conclusion that those persons cannot provide the capital, and the banks would not, and, therefore, they must hedge.

Q.—Yes, that is a very straight answer, and I should say that would accord with most of the literature and most of the evidence, that these people would find it very difficult to carry on business without a hedging system? A.—Yes.

Q.—Now, I will come along to your next quotation in which you are dealing with the abuses, and by abuses I do not mean dishonest acts. I mean facilities given for people who happen to be a little in the know, or very strong financially, to get in a little in front of other people, and you quote the findings of Dr. Duvel, and you then paraphrase it yourself for his results, and you say in other words "The price which the farmer received for his product is not the measure of its value to the consuming public but the result of the operation of a system which has no regard whatever to his equities", now, did you deduce from Dr. Duvel's findings that it really affected the price that the producer got, was that the real deduction you made? A.—Yes.

Q.—Is it not possible you may have had a group of speculators, Dr. Duvel tried to find out who were the gainers and who were the losers, would it not be the correct, or a more correct, inference that certain kinds of speculators gained at the expense of the other speculators, and that the producer was just left where he was? A.—Well, this quotation is the context of a discussion of the operation of the Grain Futures Act, and I understood that the five million bushel line is the limit under the Act and that an amendment is now before Congress, to change the line to two million bushels, and it is not a deduction so much as an inference that inasmuch as the administrators of the Grain futures Act desire to reduce the amount of the line, that there would be came detriment in the case of a long line.

Q.—Well, yes, but I am trying to see why it is I have a rather different slant from the Duvel report than you got? A.—Yes.

Q.—I looked upon its conclusion as relating to the kind of speculator who comes out more successfully than others, would you say the speculator whose name begins with "B", who has lived at a certain place, or who has operated in greater magnitude, he found that those who worked in a particular way or a particular magnitude, seemed to work out in a different result than the others, but I could not read there any necessary result as to the price of the wheat which the producer got, but you have? A.—Yes, I made that.

Q.—I will read it again carefully in the light of what you have said, to see if I can find one, but mind you, I am not saying that if the farmer is in with the small speculator, that he may not come into the Duvel report, but there is nothing to show that, there may be no farmers among those, whatever the number was, twenty-eight, no, over fifty, was

it not, of small people, there may be no farmers in that so far as Duvel's report is concerned, they may be trades people and all kinds of other people, but whoever they were, they were in with the small speculator, and I gathered from that we were being shown how a speculative market could be pulled one way by a particular class of speculator, consciously or unconsciously? A.—Yes.

Q.—Either they did it purposely, or it might arise from the nature of their work, but I did not read that, that that necessarily affected the price that the average producer got, and you think it does? A.—Well, that was my deduction, I have not gone through the process of the argument which you have presented to me, I might think a little different after a thorough survey of the report and further study.

Q.—At the bottom of the same page you have this sentence this is all dealing with the feeling of the farmers of Western Canada regarding speculation as unfortunately to themselves. One of the things, "they have the experience of having the Dominion Goevrnment, through its wartime Board of Grain Supervisors, and the Canada Wheat Board, handle three successive crops of the entire Dominion, and witnessed the disastrous decline of wheat prices which followed the withdrawal of that control in 1920." Do you suggest that the decline of 1929 was in consequence of the withdrawal of control? Do you say in the usual phrase post hoc ergo propter hoc, because it came after therefore it was caused by? A.—There is no means of knowing.

Q.—Isn't it a very strong presumption to the contrary, that the withdrawal of control as you have today with the decline that is universal all over the world in every product, in every price, whether there was control or not control, I suggest that you rather spoil the fairness of your general logical presentation by bringing in such a fallacious suggestion as that? A.—I would have you note that this is a reflection of the point of view of many farmers. That is, they witnessed this.

Q.—I absolve you of the charge of illogicality. Your answer is a perfect defense of yourself. Then you go on: "The efforts of the farmer to form a co-operative marketing organization of their own, the provincial and Canadian Wheat Pools, met with great resistance from members of the Exchange. The obvious interest of the opponents of the Pool in maintaining this marketing machinery for their own use has naturally been weighed against the protestations of the grain trade that the law of supply and demand, with its corollary, the futures market, must be given free rein." That is to say the grain trade, and by that you mean the futures market, so that he futures system helps the law of supply and demand, and that to stand up against that in the long run is not good. That is really what you mean there, isn't it? A.—I mean that the grain trade do make the assumption that this law of supply and demand operates through the futures market, and they claim that as being beneficial to the producer, and we haven't felt that to be the case.

Q.—Then you say very frankly a little further on, that you really have not been able to put your finger upon and verify any detrimental effect of trading in futures upon the producers, but despite all that the producer has the conviction that it is there?

Q.—Yes, in other words, it does not seem to be an efficient system. A.—We have been raising grain here in this province for twenty-five to forty years and right today thousands of our farmers are very poor, who have produced enormous quantities of real wealth, and the deduction is that others are making good at their expense.

Q.—Don't think I am suggesting for a moment that people are not right in having a suspicion which they can't prove. We have a provision in our English law like that called "Loitering with Intent." It does not follow because you can't prove things they may not exist, and you may be right in indicating your suspicion, but some day or other the charge has got to be brought home. You can't go on forever merely suspecting. It ought to be possible to say now, this is done, and in what way it is detrimental? A.—We are hoping this Commission will assist us to do that.

Q.—We are hoping if it is there you will assist us to find it. But it is a very important statement from you that you haven't any facts upon which to base this suspicion. One of your statements is that you think you would get rid of the abuses if you could abolish all marginal dealings not represented by actual grain? A.—That is the wording of the resolution of the convention.

O.—Have you gat any suggestions as to how that could be done, at the same time providing enough speculation for the hedging? A.—Our suggestion is an international marketing agency.

By Mr. Commissioner Evans:

Q.—That would do away altogether with this system? A.—Do away with the grain trade altogether.

MR. SWEATMAN—Just a moment, Mr. Chairman, Mr. Priestley's office has brought over a package.

THE WITNESS—These are copies of the reports.

By Mr. Commissioner Evans:

Q.—I might ask you meanwhile about one or two of the details. I think you stated somewhere that the Liverpool market remained for many days at a time with a fluctua-

tion of only a cent or two, whereas the Canadian market fluctuated. Do I remember you correctly as to what you said? A.—That was the statement, yes.

Q.—Have you ever really traced the Liverpool quotations? A.—Not scientifically.

Q.—But practically? A.—I have been interested in watching the reports from year to year.

Q.—But never really to examine to see whether a statement like that was correct or not? A.—No, I have not.

Q.—We had submitted to us in Winnipeg some charts, and a chartered accountant had checked all these charts to see that the scales were right, that the figures were from authoritative sources. The line of Liverpool prices during the past ten years you can see in that line (indicating). This is the price line, and this is the mean, or average price for a crop year. That does not look much like steadiness does it. A.—There is a general correspondence in the lines.

Q.—Oh, yes, but I mean taking the fluctuations in the Liverpool price, we have here a corresponding chart of the Winnipeg prices for the same time, and looking at that you don't see much difference, do you? A.—There is quite a little difference in the year 1924-1925.

Q.—A slight difference? A.—Quite a difference.

Q.—No, hold on, I have got the wrong ten years there. Here we are. Here is the corresponding ten years, and do you see any great appearance of difference? A.—There is a distinct difference here (indicating).

Q.—Yes, because the Liverpool market was not open there after the war. It was not open until this period here (indicating). So you don't get the same appearance. Would you be surprised that with the exception, or within an interval, of a day or two, taking into account the freight and the rate of exchange, there is practically no difference at all in the spread between Liverpool and Winnipeg, that the two markets move together, up and down, throughout the whole period as indicated here? A.—Well, I did not in view of the considered statement of our convention.

Q.—But so far as those who made that considered statement, have they ever considered the prices? A.—I have no means of knowing.

Q.—But if these prices are correct then they must have been mistaken? A.—Well, the statement only makes a difference of between one and four cents.

Q.—I may have misunderstood your statement, but I thought it was that the Liverpool price remained steady, while Winnipeg fluctuated up and down. Now, another statement which seemed to be implicit in many parts of your testimony, is that prices bore practically no relation to the quantity in the world. A.—There is no such statement.

Q.—Not in that form, but that the movement in the futures market somehow or other might divert a price from its true relationship to supply and demand. You haven't any idea corresponding to that in your mind? A.—No. I didn't make any statement to that effect.

Q.—I have forgotten what the expression was, in following the course of your text. But never mind, I will just ask you to look at this chart again. Of course, we had following the war that extreme drop in prices to which Sir Josiah has referred. Here are the wheat prices, and this figure represents the world crops of wheat, the scale running down this way. This is excluding Russia in this period because we had not figures for Russia for a part of the time. This year the world crop was about three billion, and so on, the different sizes of the crop being shown. With all the fluctuations that occur, taking the average price line for the year, after we get through with the war deflation, see how extraordinarily accurately the price varies with the quantity, and until this very last year, 1929-1930, the variation in per centage is almost absolutely in accordance with the variation in quantity. A.—There seems to be considerable variation.

Q.—Minor there, but follow it down. A.—The general line trend. What about this drop here?

Q.—We have got that deflation period. All raw commodities dropped faster than the general prices during that period, and they recovered their normal relationship here, and have maintained it ever since. The evidence we have before us is that the prices that are made in the market, both before and after the war—because we have here the ten years before the war and ten years after the war—have, as a matter of fact, varied in a surprisingly accurate way with the variations in the total quantity of wheat in the world in those years. A.—Mr. Chairman, may I make a statement. This general line represents the total delivery of wheat throughout?

Q.—No, this is the price line. This is the world's crop.

THE CHAIRMAN—The quantity line at the top.

A.—So far as large numbers of individual farmers are concerned, they may market produce through this system at a time when the price is at its very lowest.

By Mr. Commissioner Evans:

Q.—Oh, yes, or an individual farmer may market it when it is at the very top? A.—Yes, an individual. Speaking for the entire community the greater proportion of the farmers marketed when the price was low, or did before we had our Pool.

THE CHAIRMAN—That is the price that results from the time the farmers do market?

By Mr. Commissioner Evans:

Q.—So much for that. You said a good deal about what you call the mystery in the market. It came in in various ways. In your statement you said, and one witness here this morning told us, that by radio every hour you are kept informed of what is going on in that market, is that true? A.—I think we have crop quotations going out over the radio.

Q.—Every hour? A.—Yes.

Q.—Is there any other business that you know of about which the public, not at its own expense but at the expense of the industry, is now posted every hour of the trading day on what is being done? A.—No, I don't think there is.

Q.—Have you ever visited the Winnipeg Grain Exchange? A.—No.

Q.—Well, I am sure they would be very glad indeed to have you visit it on the first occasion. And if you were to go there and would observe the transactions, I wonder if you would find any place where mystery could lurk, because if there is any characteristic of that market it is that everyone operating in it is shouting at the top of his lungs what he offers and what he bids, and if you can read the signs used, as the other men can, he is telling you the quantities and all about it, and every hour the result goes out through all the country. Where is the mystery? A.—The mystery lies in what is going on behind apparently the chaotic system.

Q.—Where is behind? What do ou mean? I want you to explain that.

By Mr. Commissioner Brown:

Q.—That is, who is putting the orders on the floor of the Exchange. That is the mystery. A.—Yes, for instance, a number of people decide they will assist one another in a series of price declines and wash out the sales in the course of the day.

By Mr. Commissioner Evans:

Q.—If we are told there is no such thing as wash sales there you wouldn't have any evidence to the contrary, would you? A.—I couldn't verify the statement, I have no means of verifying it.

Q.—What is in your mind about that? Let us get it if we can. It is not the mystery about the transactions; they are all there as individuals, and publicly and in he most vociferous way they are proclaiming to all the world just what they are doing, and marking it up on the board instantaneously so that everybody in the room can hear and see. There are representatives of all the principal newspapers mingling around among them. There are public galleries for the public. You will find the figures displayed and the wires and the radio spreading them out all over the country.

MR. COMMISSIONER BROWN—And nobody knows who is selling or who is buying?

MR. COMMISSIONER EVANS—Then what is it?

MR. COMMISSIONER BROWN—I mean that is what is in the minds of the farmers.

By the Chairman:

Q.—You mean, although there is an appearance of great publicity both by sound and by sight, that somewhere there is concerted action, and that these people who are shouting out at each other are really puppets for some concerted power behind? A.—Well, there is no list of names or of the transactions that take place during the day; no record kept of these exchanges. They are effected in the midst of great chaos, as Mr. Commissioner Evans has stated.

Q.—With what looks like chaos, but there must be an extraordinary form of order for the thing to emerge so satisfactorily. But your point is that behind all that mystery are the instructions that the people in the pit have? A.—Yes, and causes the trend in a certain direction, that is the mystery.

By Mr. Commissioner Evans:

Q.—If the result of the trend is to make your price fit absolutely your quantity in the world each year it is not a bad thing, is it?

Q.—To come back to this, what would satisfy you that there was no mystery there, would you want the names of everyone who had a trade in the futures market? A.—That is the suggestion that is here given. We feel if the transactions conducted in the Exchange were tabulated, and kept on record permanently, that a commission such as we are now sitting with, at the end of a given period could then ascertain whether it is detrimental to the producer or not. Without such information that is impossible.

Q.—Tabulated? What do you mean? Just the total volume of open accounts, or what? A.—No, the individual transactions.

Q.—Got from the individual? A.—Couldn't this be registered at a central office in the Exchange?

By the Chairman:

Q.—Supposing they were, and supposing you had a considerable identity of action on the part of a number of people, would it show they were thinking in the same way, independently of each other? A.—Not necessarily.

Q.—Or that they had come together to agree to do a certain thing, could you tell? A.—No.

By Mr. Commissioner Evans:

Q.—What then would be the importance of it, just to satisfy curiosity or what? A.—No, if the system evolved were not satisfactory we would have to proceed to evolve a satisfactory system.

Q.—If the system evolved was not satisfactory, that is, the system of keeping records? A.—Yes. For instance, the administration of grain futures in the United States has no regulatory powers, but they have examining powers, and they are endeavoring to exercise limiting powers.

Q.—You mean there is a Bill before Congress to that effect? A.—Yes.

Q.—It has not been passed yet, and you don't know how it would work, but at the present time there has been no limiting power in the administration? A.—No.

Q.—But have we got all that is in your mind that you would like, that every individual should report what he is doing in futures? A.—Well, as I said I don't understand in detail the technical operations of this Exchange.

Q.—Would it be reasonable? You are a member of the Pool, as you say. Are you a director of the Alberta Pool? A.—No, I am in the U.F.A.

Q.—Not the Alberta Pool? A.—No.

Q.—And you are not a member of the Central Selling Agency? A.—No.

Q.—But would you apply the same thing to the cash market and have the Pool disclose in the cash market every day the individual with whom they traded and the volume. Would that be reasonable? A.—Their transactions represent actual transactions.

Q.—Let us leave the futures out altogether. I am talking of the cash market, where it is selling its cash wheat. Would it be reasonable to ask in that market that the Pool should disclose and make public every day the parties with whom they dealt? A.—I do not think it would. I do not suggest that in the case of the Exchange in the futures market. I suggest that a record be kept and be there permanently for examination on the part of responsible parties.

Q.—Just to have it in case someone wanted to look at it in future and that would satisfy you? A.—It might satisfy me but I do not know enough about the operations to say whether it would satisfy the persons who are more familiar with the operations of the Exchange.

Q.—As a member of the Pool you have never thought of inquiring into the Pool's own actions in the futures market? A.—I have seen a statement in connection with it and I am fairly satisfied that in their business they are conducting it in a rational way and doing the best they can under the circumstances.

Q.—But you never did inquire into their futures marketing? A.—No.

Q.—According to your understanding has the Pool ever hedged? A.—I understood the Pool does not hedge.

Q.—You referred to the Grain Growers' Grain Company. Is that the United Grain Growers? A.—No, the United Grain Growers was a subsequent development. The Grain Growers' Grain Company was the original company.

Q.—You said they had difficulty at the beginning in securing a seat on the Winnipeg Exchange? A.—Yes.

Q.—They were anxious to secure it? A.—That was the only way they had of getting to the world market.

Q.—And they were subsequently admitted and they are still operating? A.—Under another name, yes.

Q.—We had evidence from them in Winnipeg that they have consistently from the beginning hedged their purchases of wheat and dealt in that way and we had evidence yesterday that even during this last difficult year the United Grain Growers paid dividends as well as paid each man who put his grain in, the market price at the time he did? They have come through with their hedging system, not only to give their own members the market price but also to earn dividends in the year where the other institution that you are interested in, not hedging, has come through in a very different way. That has been presented to us as worth considering when we are dealing with the importance of futures transactions in safe-guarding grain. I do not think I need go into much more because the chairman has covered the points pretty well.

By Mr. Commissioner Brown:

Q.—Mr. Priestley, I think I can congratulate you on expressing in this statement the view of the farmers of the prairie provinces in a clear and concise and intelligent form, better than anything we have as yet received. I think I may say, sir, that from what knowledge I have, that this view expressed by Mr. Priestley does, in general, express the views of the farmers of the three prairie provinces. You have spoken of the marketing conditions in the fall in this province as having somewhat varied in the last few years. Generally speaking the practice has been, because of the necessities of the farmer, to market his grain in the early months of the fall, immediately after threshing? A.—Yes.

Q.—That necessity has been brought about because he requires the proceeds of his grain to meet his liabilities? A.—Yes.

Q.—Secondly, because as a rule he has not the storage facilities on the farm by which he could take care of the grain, if he so desired to do, is that correct? A.—Quite so.

Q.—And that has been the situation over the past and is the situation to-day? A.—Yes.

Q.—That means that the grain of the farmer is put on the market in the early months of the fall, say, September, October and November, is that correct? A.—That is correct.

Q.—I mean the great bulk of it? A.—Yes.

Q.—Now then a condition of affairs has arisen in the last few years which intensifies that situation, as I understand it, that is the combine has been brought into existence, and the truck, with the result that the crop is harvested more rapidly and delivered to the elevator more speedily than has ever been the case in the history of the western farmer? A.—Quite so.

Q.—The consequence is, that the bulk of the grain is marketed in an intensified way in a limited period of time more so than ever before? A.—Yes.

Q.—So that I think the assumption is only fair to say that with these, shall we say, improved conditions for harvesting and marketing, the bulk of the crop is going to be placed in the hands of the grain trade in a more intense and limited period of time than ever before? A.—Yes.

Q.—And has it been your experience in watching the markets in the fall to find that at the opening of the market, over your period of observation, that in the opening period, the market is fairly brisk and then there is a gradual decline? A.—On the first few loads of grain being marketed the price has been frequently high, yes.

Q.—And then it has gradually declined? A.—Yes.

Q.—So that if a big bear or a big bull, there are little ones and different coloured ones, but if one big grizzly, as I think one of the witnesses spoke of before, or a few of them combined, and came into the market at that particular time of the year, and depressed the market, who is going to be the loser? A.—Thousands of farmers, who are, of necessity, marketing their grain at that particular period.

Q.—That is, they are forced to market their grain in a condensed and limited period and their position would be more difficult in that respect in the future than it has been in the past and the big manipulator, if there is such a man, would have a better chance to get in his fine work than ever before? A.—Yes.

Q.—Is that correct? A.—That is correct.

Q.—You say that you have not been able, because of the conditions around the Grain Exchange, you have not been able, and the farmers in general have not been able, and those who have hitherto thought to probe, have not been able to find out exactly what is going on there, is that correct? A.—That is correct.

Q.—That is, you see the boys in the pit and you hear the noise of the pit but you do not realize and are not able to realize exactly what that represents? A.—Yes.

Q.—And so, from the investigations that have hitherto been made with reference to the Grain Exchange, light of day has not come in in such a way as to satisfy the farmer of the west that there is nothing wrong there? A.—Yes.

Q.—That is he has not been satisfied in that respect, at least? A.—No, he has not.

Q.—Even though he might not have been satisfied that there is something wrong, is that correct? A.—That is correct.

Q.—And you say representing the farmer, and I am trying to get the farmer's view here, you say that if we could only have an investigation that would get in more deeply behind that scene that we might find that after all there is nothing wrong, and both the Grain Exchange and the farmer might be greatly relieved? A.—That is a possibility.

Q.—But that the position of the farmer in this country is this that he insists, because his grain is marketed through the Grain Exchange and the Grain Exchange operators have a tremendous influence on the price that he gets, that he insists that a thorough investigation be made in some way by somebody competent to do it so that he may be assured that no manipulation, or no other transaction of an injurious character to the farmer, can take place there? A.—Yes.

Q.—Is that correct? A.—That is correct.

Q.—Now I put it to you this way, you have had a long experience in this country? A.—Twenty-seven years.

Q.—You have seen the operations of the Canada Grain Act in that time? A.—Yes.

Q.—And you would say, as a man who has observed the marketing of the farmers' grain throughout the prairie provinces in that period of time that the introduction of the Canada Grain Act, with its various amendments from time to time has been an immense step towards the security of the farmer in marketing his grain? A.—It has been considered a victory all along the line all the time for the farmer. It has brought about conditions by way of betterment for the farmer all along the line.

Q.—And no man would ever think of going back to the old conditions? A.—No. The flat warehouses you mean and loading his grain——

Q.—And leaving himself in the hands of the Grain Trade as he was in the days gone by, is that correct? A.—Yes.

Q.—In other words, the grain man to-day is, after all in your judgment, not much different, the grain trader to-day is not much different in characteristics from the man

that this country had to deal with 30 or 35 years ago, is that correct? A.—That is the view of our farmers, he is the same type of man.

Q.—He is interested in his own business and he is interested in making all he can out of it? A.—Yes.

Q.—He is thinking of himself before he thinks of the farmer? A.—Yes.

Q.—And history has proved that? A.—Yes.

Q.—Proved that to my satisfaction if it has not to yours.

THE CHAIRMAN—That is not peculiar to this particular industry?

By Mr. Commissioner Brown:

Q.—Not at all. That is what he will expect and that is what we naturally expect and, therefore, it is what we have to guard against. Now you say that the tightening up of the grain trade as manifested in the Canada Grain Act has brought great benefits to the farmer? A.—Yes.

Q.—It is under Government supervision through the Board of Grain Commissioners? A.—Yes.

Q.—And so far as you know it has not in any way been detrimental to the grain trade, that is they have suffered no undue losses by virtue of the enforcement of the provisions of the Canada Grain Act, the Grain Trade? A.—They have had to adjust themselves, of course.

Q.—Exactly, but it is not unduly stringent? A.—It does not appear to be. No, they continue the grain trade and the grain trade expands and others go into it and so forth.

Q.—And they are still anxious to do business under it? A.—Yes.

Q.—Do you think that it would satisfy you, that is what I want to get at, do you think it would satisfy you and your brother farmers over these western plains if you had a supervision of some kind, a restraining hand of some kind over the operations of the Grain Exchange so far as it applies to futures marketing? A.—It would satisfy them with respect to this particular question.

Q.—That, after all, is the crux of the situation. You do not know, you cannot find out and you would like to have some system introduced which would give you an assurance. A.—Surely.

Q.—Is that the crux of the situation? A.—That is the crux of the situation with respect to this particular inquiry, yes.

Q.—I can assure you in the limited time at our disposal we are not going to be able to dig deep enough to root out the iniquities of the Grain Exchange, if there are any there. I do not say that there are any. I am not making any suggestions. But our time is going to be very limited. You have asked us to dig. I do not see how we can do the digging in the limited time at our disposal. Therefore, it seems to me the only assurance, if you want that assurance, is, we have simply got to recommend it in some other way.

MR. COMMISSIONER EVANS—Would the Commissioner re-state the question submitted to us?

THE CHAIRMAN—We have to report upon what effect, if any, the system of trading in futures has upon the price received by the producer, and that splits itself up into the ideal and perfect system of futures trading conducted by Archangels and as we see it to-day, and we have the liberty to say what the gulf between the two is. We have to discuss the various effects upon the price, because they are not all alike. It might very well be the farmer would be better off with a low average price, free from fluctuation. We have to look at those fluctuations and averages. We are at liberty to report whether the system would have a different effect upon the price received by the farmer if certain correctives or regulations were introduced into it. We are not able to say what the regulations are to be, or whether they are practicable, but only to say that certain people think they would like to have them. I would like to comment, I think, upon what they think is reasonable.

(Hearing adjourned until 2.40 p.m.)

THE CHAIRMAN—Will Mr. Priestley come up. Chief Justice, we interrupted your cross-examination for the adjournment, do you wish to continue?

MR. COMMISSIONER BROWN—That is all I wish to ask.

THE CHAIRMAN—Mr. Sweatman.

By Mr. Sweatman:

Q.—The one hundred and fifty-five million dollar losses, are those all grain losses? A.—Trading in wheat futures.

Q.—That is, you tried to separate them from the general speculation in stocks during those years, did you? A.—Yes.

Q.—Well, how was this canvas made? A.—By approaching elevator agents at local points, and local bank managers.

Q.—Did you get out a questionnaire? A.—No.

Q.—Was it done in some sort of loose, just a general estimate, is it a very vague figure? A.—Not a vague figure, no, we have agencies throughout the entire province, which are in a position to approach these people.

Q.—Are you able to say whether they separated the losses in stocks from their wheat

losses, because it appears to me to be very large? A.—They were not interested at all in speculation in stocks.

Q.—You are satisfied that they were so separated by your agents? A.—Quite so.

Q.—Is your organization also a political organization? A.—I am the vice-president of the United Farmers of Alberta, which is responsible for political action.

Q.—Yes, it is a political party, I thought that was important for the Chairman to know that? A.—Yes.

By Mr. Pitblado:

Q.—Mr. Chairman, I would like to ask Mr. Priestley just a few questions, on the estimate which was made, just following along with Mr. Sweatman's questions, what Mr. Sweatman asked you, the loss from one hundred million to one hundred and fifty-five millions, that does not consist merely of losses by farmers? A.—No.

Q.—In fact you spoke of one man who was reported to have lost one hundred and sixty-eight thousand dollars? A.—Yes.

Q.—Well, if your statement that you put in is correct, that man couldn't have been a farmer, am I correct? A.—Not necessarily, there are farmers who have money.

Q.—Well, not made in farming, as I heard the statement read? A.—No, not within recent years.

Q.—At any rate, this man was not a farmer, as you understand it? A.—Well, I do not care to make that statement.

Q.—Well, I do not know him at all, Mr. Priestley, but what do you say about that, I cannot help you because I do not know the man's name? A.—We do not wish to disclose his name.

Q.—I do not want his name, but was he or was he not a farmer? A.—I do not think, Mr. Chairman, that I should be compelled to answer that question.

By the Chairman:

Q.—You imagine, I suppose, that that might lead to his being seen or understood? A.—Yes, it is a specific sum, it is not like it was a round sum, it is rather close, it is a specific sum and if I go a step further, perhaps, it would lead to the man's identity.

Q.—I don't want that, and if it is going to work towards that I would be the last one to ask it? A.—Yes.

Q.—But in your figures there are men who are not farmers? A.—Certainly.

Q.—Men who lost large amounts? A.—The statement is made that the losses are both urban and rural.

Q.—And when you say urban you mean they are not farmers, that is what I meant? A.—Yes.

Q.—We will stick to this, and get over it very quickly? A.—Yes.

Q.—You have collected as much as you could do it, in this way, the losses by people who were non-farmers, as well as those who were farmers? A.—Quite so.

Q.—Then, if I understand your statement correctly, I have not seen it, let me see, your assertion is that the individual members who belong to your organization object very strongly to speculation in grain, I think I am clear on that? A.—Yes, I think that is clear.

Q.—Well, I thought that was abundantly clear from the statement, it is clear, is it not? A.—Yes, it is clear.

Q.—And that is their earnest conviction, Mr. Priestley? A.—The objection takes this form, that speculation in grain prevents them from making a living in a satisfactory manner.

Q.—Yes, but you take up, that is quite true, and you take up speculation in grain as being an evil, you mentioned it, this amount of money which was lost in the province? A.—Yes.

MR. COMMISSIONER BROWN—For the farmer and for the public generally?

MR. PITBLADO—Yes, I am taking it both ways.

Q.—For the farmer and for the public generally? A.—Yes.

Q.—Yes, and your farmers conscientiously believe that, do they not? A.—Quite so, it is specifically stated in our fourth point.

Q.—I understand that, and I am not trying to trip you, and there are eighteen thousand of your farmers who believe that? A.—And more.

Q.—And more? A.—Yes.

Q.—So I suppose, that being their earnest conviction, and as it is their earnest conviction, none of those eighteen thousand farmers and more were caught in this speculative market? A.—Oh, no, I would not say so.

Q.—You would not say that? A.—No.

Q.—Why not? A.—There are many men who do things that are contrary to their convictions.

Q.—Exactly, so that these gentlemen, and many of them, put this statement before us as their earnest conviction, and yet they act and do act contrary to their conviction, is that correct? A.—I would say it is, in some instances, correct.

Q.—And a large number, Mr. Priestley, of your own members who now object so strenuously to speculation in grain were caught in the speculative market of last year? A.—Quite true.

Q.—Quite true? A.—Yes.

Q.—But now, since they lost they are are conscientiously opposed to speculation in grain? A.—No.

Q.—That is correct, is it not? A.—No, that is not correct.

Q.—That is not correct? A.—No.

Q.—Are they not opposed to speculation in grain now? A.—There are many men, if I might make an analogy, use an analogous instance, Mr. Chairman, there are many men who will vote for prohibition, who will take a drink.

Q.—And that is the illustration that you use as to these farmers of yours? A.—No, and their convictions that drinking is an evil, are nonetheless strong because they take a drink, and the statements which I have made before this Commission are concerned not with the right or wrong of the situation, but with the fact that a great industry is not able to conduct its affairs in an orderly manner, cannot know its cost, has no means of adjusting its affairs because of this wide-spread practice which we have been discussing.

Q.—The great industry being what? A.—That great industry being agriculture.

Q.—And if these farmer members of your organization speculate, they did so voluntarily? A.—Quite so, that is fair.

Q.—No one forced them into that speculating mood? A.—No.

Q.—I am correct about that? A.—That might be balanced, however, with the statement which you will find in my submissions that inasmuch as they are not able to ascertain their own charges or understand their business because of the existence of this system they are attempting to try the other way.

Q.—Yes, but, you see, Mr. Priestley, don't forget that these men that I am speaking of were Pool members, and at that time were turning over their grain to the Pool to market for them? A.—Not necessarily.

Q.—Well, a large number of them? A.—There is no statement of that fact in my submission.

Q.—Well, a large number of them? A.—Well, if that is your conclusion, you are entitled to it.

Q.—Am I right in that? A.—I would say that some are, I do not know how many.

Q.—But so far as they are Pool members, let us put it that way? A.—Yes.

Q.—So far as they were Pool members they were turning over their grain to the organization to market for them, I am correct in that? A.—That might be correct, I think it would be in a few instances correct.

Q.—So far as they were Pool members they all turned over their grain to the Pool to market for them? A.—Yes.

Q.—Not in some instances? A.—No.

Q.—So if these men speculated, they did that voluntarily of their own accord? A.—Quite so, that was a transaction entirely outside their Pool transactions.

Q.—Exactly, and you mention in your statement, as I understood it, I only took notes from it, that the farmers last year that you were speaking of, that lost so heavily, were speculating for a rise? A.—I say that is the natural tendency of people who are interested in higher prices.

Q.—Well, did they speculate for a rise last year in this market on which they lost? A.—I would think that is the proper conclusion to come to.

Q.—You think that is the proper conclusion to draw? A.—Yes.

Q.—So your members object to speculation individually by the farmer? A.—I do not get the point of your question.

Q.—Well, your presentation, as I got it, is a very strong objection to speculation by the farmer, that is correct, is it not? A.—That is one of the phases of the submission.

Q.—That is the part I am dealing with? A.—Yes.

Q.—There are so many, I am not going to touch the others just now? A.—Yes.

Q.—So they object to that individually, that is, they do not think the farmer ought to speculate individually? A.—Mr. Chairman, I do not think that that statement should be put into my mouth, this submission was prepared by me as an individual and it cannot be said to be in that sense, that the gentleman now questioning me wishes it to be.

By the Chairman:

Q.—No, but we have endeavoured to ascertain from you that you had your view to present, not only from an individual point of view, and it may not be your point of view at all, you have been charged with the task of finding out what you believe to be the highest common factor of your members? A.—Yes.

Q.—And you have done that? A.—Yes.

Q.—So any questions about what the farmers think collectively as pertaining to your statement, I would understand you to mean this, and perhaps it is a sufficient answer to Mr. Pitblado, that your members, when they have all the strength of speaking collectively, and their identity is in the fore, they put their moral claims much higher than they would

have in individual isolated practice? A.—I think so, I should think, Mr. Chairman, I might reply to that, I should think that that is a common characteristic, that that is true of all organizations in almost any condition.

By Mr. Pitblado:

Q.—Yes, but then——. A.—The ideal does emerge when we get our collective wisdom together.

Q.—So the collective wisdom, let me use your own language then? A.—Yes.

Q.—The collective wisdom is that the farmer should not speculate individually as a farmer? A.—I think it is.

Q.—And I suppose that what a farmer should not do individually as a farmer he and other farmers ought not to do that collectively, that follows, doesn't it? A.—Not only follows, Mr. Chairman, but it leads.

Q.—It what? A.—I say it not only follows but it leads.

Q.—Yes, it leads somewhere, you are quite correct, Mr. Priestley, and you are looking to where I am leading to? A.—Yes.

Q.—And so I am coming to it so as not to disappoint you, you say the Pool, as you told the Chairman, and in your statement stated, does not hedge, that is correct? A.—That is correct.

Q.—And so if the Pool is in the futures market it is in for speculation purposes? That is correct, is it not? Why so long to answer that, that is simple? A.—Just for this reason, Mr. Chairman, that I am not here as a proponent of Pool policies, and I am not here in a position to speak officially for the Pool, and do not wish to be quoted as such.

Q.—Well, let me ask this question to you then, and I will put it this way and see if you apply your same rule to individuals, grain dealers and Pool, that is if they are in the futures market and are not hedging they are speculating, is that, would you say, that is the principle that you lay down? A.—I suppose you expect a categorical yes or no to that question?

Q.—I would like a categorical yes or no first, and then you can explain it if you want to, I do not want to take any advantage of you, but I want to see the principle underlying your statement? A.—Mr. Chairman, I want to make this suggestion, that we are not concerned with the Pool policy.

By the Chairman:

Q.—I quite agree, but any questions directed to testing the strength, either individually or collectively, of the farmers' convictions, not merely as something expressed but as something which guides them in action, such a question is in order, and if it transpires that the farmers in their more pious and exalted moments say that one thing is quite wrong, but we find that every day of their lives they are doing that very thing, then that is pertinent to our enquiry, becauses it brings to bear light upon the value of the opinion? A.—Yes, Mr. Chairman.

THE CHAIRMAN—I quite agree we won't go any distance at all into the Pool policy, or even what the Pool has done as a matter of collective policy. So far I think Mr. Pitblado has just kept within the edge of our remit.

MR. PITBLADO—I am not sure at some times something else may not evolve, but I think I am keeping within your economic principle.

THE CHAIRMAN—The witness sees where you are leading, and I fancy I did, but I may be wrong, but at any rate what you are doing now is testing this conviction of the farmer that the existence of the futures market is inimical to the interests of agriculture?

WITNESS—Yes.

MR. PITBLADO—Yes.

THE CHAIRMAN—You are seeing how far this opinion, as expressed through the mouth of the witness and in this memorandum, how far that is acted upon in practice?

MR. PITBLADO—Yes.

THE CHAIRMAN—And I think that is perfectly legitimate. Whether he acts upon it individually or collectively, that is certainly important. Of course, I don't think the witness before this Commission should be compelled to answer any questions if he doesn't want to answer it. Then he stands whatever inference may be drawn from it.

MR. PITBLADO—Exactly. I am satisfied with that.

By Mr. Pitblado:

Q.—You know the question, Mr. Priestley? A.—Yes, I know the question. I do not think I am competent to answer it, and I do not think I should be required to answer it.

Q.—Your idea is that you do not want to answer it? A.—That is quite true.

Q.—You would leave it to the Commission, and those who want to, to take that as the answer? A.—Yes, I am of the opinion that it is not pertinent to the question. For instance, if I may amplify, what some farmers do who happen to be members of a great organization of farmers is not necessarily the concern of those farmers collectively.

By the Chairman:

Q.—What I understand is this long document of nine or ten pages is merely the

amplification of the prayer that we offer: "Lead us not into temptation." It doesn't go on to say that they do not know the temptation, or never fall into it, but in their best moment that is the thing they ought to say.

By Mr. Commissioner Brown:

Q.—Further, when they are tempted out of their experience of the temptation, they have lost, that is the idea? A.—Yes.

Q.—But in so far as they have engaged in this practice as individuals it has been to their detriment? A.—Surely it can be expected that men will gain wisdom as they grow in years.

Q.—But I mean that is what you wish to express? A.—Yes.

THE CHAIRMAN—But they always pray more fervently when they are losing?

By Mr. Pitblado:

Q.—Now, this resolution about the evils of the futures market that you read, which involves this principle of speculation was passed, as I understand it, in the beginning of 1931, I think January or February? A.—Yes, both resolutions.

Q.—So that those farmers and yourself had this experience of last year to go on? A.—And of many years.

Q.—But if they got wisdom as they grew in years there must be some wisdom that they got from last year's experience? A.—Quite so.

Q.—You don't think this was what you would call in the church "A change of heart."? A.—No.

Q.—You and I know what that means, I being a minister's son, and I understand you at one time were in the ministry? A.—Yes.

Q.—They are not converted suddenly from the error of their ways to that view? A.—No, I think if you go back over the records of our conventions you will find similar views, perhaps not expressed in the same phraseology, for many years.

Q.—So that then I come to this, and you suggested to the Commission in this statement that the futures market should be limited, as I understand it, to the direct hedging of grain by those who had grain, something of that kind? A.—That is it.

Q.—So that would be some kind of a provision that would shut out all speculation? A.—That was the intent of the resolution.

Q.—Now, I come back to the question, and your suggestion in this objection of speculation that you have is that the farmer should not speculate, that is correct? A.—It is correct, yes, and it is suggested that no one should speculate.

Q.—And these men in the Grain Exchange down there, they ought not to be permitted to speculate, I am correct in that? A.—Yes, you are correct in that.

Q.—Then, are you going to say also that the Pool should not be permitted to speculate, is that what that means? A.—I think it would be all right to say that.

Q.—And you can't tell me whether they have been speculating, if they have been in the futures market, whether in your opinion they are speculating now? A.—Speculating now?

Q.—Whether they are now holding options in the futures market——

THE CHAIRMAN—I don't want any questions directed to the witness which may lead anybody to suppose that any particular thing is happening now.

MR. PITBLADO—I may have to suggest something to you later, sir, about that.

THE CHAIRMAN—If they did in the past you can ask him about that.

By Mr. Pitblado:

Q.—Let us say in the past times if they were in the futures market you would understand they were speculating. A.—You have had the admission; it has been made publicly.

Q.—I am not suggesting something that is not public property. It has been stated here on the floor of the Legislature by the Premier of the province that the Pool had been in the futures market. A.—On three occasions.

Q.—That is before this year came on? A.—Yes.

Q.—And at any rate, you then would say that the Pool were speculating, would you not? A.—The Pool has grain to deliver.

Q.—But they are not hedging it, they were not hedging, Mr. Priestley, you have admitted that? A.—I said as a general policy the Pool does not hedge.

Q.—Wasn't the statement made on the floor of the——I want to see if you condemn them just like the rest of us or not. It is not that I want you to say what their policy is. You are condemning speculation, and the statement has been made on the floor, as I understand it by the Premier here, that the Pool went into the market, having grain to sell, and bought more grain. A.—Yes, you are aware, Mr. Pitblado, that the statement was made that it was for the purpose of stabilizing a fluctuating market.

Q.—Stabilizing the price. I quite agree with you, but that was speculation, was it not? Do you call that speculation? A.—Not of the same type or degree as the other type of speculation.

Q.—And the reason of that is because it was the Pool in the one case, and it might be a speculator in the other? A.—No, because the Pool has grain to deliver.

Q.—Let us follow that. The Pool has grain to deliver, and then they go and buy more grain on the futures market, and that is not speculation, is that your suggestion? A.—That is your suggestion.

Q.—I am asking you, is that what you want to suggest to us, because they have grain to deliver therefore it is not speculation for them to buy more grain? A.—My answer to that is that they representing 144,000 farmers, who have grain to deliver, are trying to prevent fluctuation in the market, from robbing those farmers of their just returns.

Q.—Exactly, and I am asking you in doing that do you—because you put in your theories on speculation here—do you consider that speculation? A.—I don't care to be quoted in words you wish to put into my mouth.

Q.—You decline to answer? A.—I decline to answer.

Q.—Notwithstanding you have given us this very, very excellent brief which covers the evils of speculation, you decline to answer whether that is speculation or not? A.—You have come to your own conclusion.

THE CHAIRMAN—There are plenty of people who in church talk about themselves being miserable sinners, but the moment you tackle them outside on some particular thing they are up in arms against that. I think you must not push the general evils of speculation right too far home into particular incursions. We will draw our own conclusions.

MR. PITBLADO—I am done with it. I wanted to see what this witness would say.

THE CHAIRMAN—None of us could stand that kind of scrutiny. I should be sorry to have it put to myself. I am prepared to put forward theories on all sorts of subjects, but not to stand your cross examination on what I have done.

MR. PITBLADO—You hardly got my viewpoint, Mr. Chairman, I only wanted to find what things he called speculation in the brief and what were not speculation, because we may be talking at cross purposes, because we have the same meaning of speculation practised by everyone, and it is only the meaning of the term.

THE CHAIRMAN—I think the meaning shifts a little as we go from point to point.

MR. PITBLADO—I am afraid so, sir, according not only as we go from point to point but as our interests may suggest. And with that I only want to put another question about speculation.

By Mr. Pitblado:

Q.—I understood, Mr. Priestley, from your statement that you and those that are behind your statement consider that the farmer who holds his grain unsold until spring, we will say, that he is speculating, is he not? A.—He is anticipating a rise in the market. There are those who call it speculation.

Q.—I beg your pardon? A.—There are those who call it speculation.

Q.—You gave us some definitions of speculation? A.—No, I didn't.

Q.—Well, I understood they were set out. Do you call that speculation or not? We will get it I haven't seen your reference, but do you call that speculation or not? A.—Not in the same sense as it is speculation where a man has no interest other than getting the difference between one sum of money and another. There is a difference. If a man has wheat in his granary, and has hopes that wheat will rise in price, he is perfectly entitled to hold it, and you need not place upon that condition of affairs an invidious distinction that it is not proper.

By the Chairman:

Q.—Therefore, he who holds his wheat is an investor and not a speculator? A.—No, the investment is there in his granary. His energy and wheat are all there.

Q.—But you don't call it speculation if he holds it for a rise? A.—No, I do not.

By Mr. Pitblado:

Q.—That is what I want to get. I don't know whether you know this or don't know it. Do you know whether or not the Pool has three seats on the Winnipeg Grain Exchange? A.—I have heard it said.

Q.—You have spoken about secrecy and other things in connection with the Exchange. Have you heard any suggestion coming from other members or anyone connected with it, that there were things there they did not understand? A.—Yes, I think I have.

Q.—From these Pool members who are on it? A.—Yes, as from everyone else, including the chairman of this Commission, and others.

By the Chairman:

Q.—Will the witness mind telling me what I have done? A.—Mr. Chairman, you have confessed, along with others, there were things in this connection you couldn't see through.

MR. COMMISSIONER BROWN—I may have said that: I don't think the Chairman said it.

THE CHAIRMAN—If I have said I couldn't see through anything, that must have been a lapse. I am not omniscient, but I am going to pretend to be. A.—May I say in defense of my lapse, it was reported you were hunting with not much success for a certain bear.

THE CHAIRMAN—But I didn't suggest he existed; somebody else suggested that.

MR. PITBLADO—I think that is all I want to ask Mr. Priestley, but I want to state this in Mr. Priestley's presence, as representing the organization, that in Winnipeg I said to your Commission, I suggested to your Commission, that the members of your Commission should go to the Clearing House, and that you should have open to you, and that you should look at the records and the open lines present and past of the Clearing House Association, and I state that here to Mr. Priestley, so that he and his members may know that offer has been made to your Commission, Sir. You recollect, sir, I did that?

THE CHAIRMAN—Yes, I remember that.

MR. COMMISSIONER BROWN—If we have the time.

MR. PITBLADO—What I am going to say is this, I want Mr. Priestley and his members to know that the Grain Exchange, and I am their counsel, has offered to this Commission to open wide every door that is there for this Commission to go into, and look in to see what is behind. I can't do more than that. I can't bring everything before you.

MR. COMMISSIONER BROWN—Are the records there? Are the records there of the activities of the members of the Grain Exchange?

MR. PITBLADO—Where, sir? Where are you asking now?

MR. COMMISSIONER BROWN—In the records.

MR. PITBLADO—Certainly, they will be in the Clearing House. The Grain Exchange as a body has no control over the Clearing House, but, as Mr. Fowler, who was before the Commission the other day, said, he will not disclose to any member the open trades of any other member of that Exchange.

MR. COMMISSIONER BROWN—What I mean is that the records are not kept of all these transactions in detail?

MR. PITBLADO—But you are quite wrong, Chief Justice. The records are there in detail.

MR. COMMISSIONER BROWN—We can't find out how much is speculation for hedging purposes, and how much is pure speculation for the joy of making a little money.

MR. PITBLADO—That is another matter, Mr. Chairman. Let me use an illustration of that, because I want to show how far you can go into that. For instance, I am going to use the Pool, if you find the Pool with an open account in the Clearing House how can anyone connected with the Grain Exchange, the manager or anyone connected with it, tell what that Pool's object is in buying or selling, because the same thing applies to any grain company who has an open account, and that is impossible to tell. The motives or intentions cannot be found out by looking at the records, but the records can be looked at, and if there is a suggestion of any improper motive then I am going to suggest to the Commission that they then could call before them the person that had these long lines, and that has been offered, and that is all we can do.

THE CHAIRMAN—Thank you, Mr. Priestley. Have you any other witness, Mr. Sweatman?

MR. SWEATMAN—Is Mr. H. B. McLeod here? No answer.

MR. SWEATMAN—Is Mr. George E. Church here? No answer.

MR. SWEATMAN—Is Mr. M. S. Ware here? No answer.

These are names I have been furnished with of gentlemen who are desirous of testifying. Is Mr. C. W. Robinson here?

C. W. ROBINSON (called).

By the Chairman:

Q.—What is your occupation? A.—Farmer.

Q.—How long have you been a farmer? A.—I came to this country thirty-nine years ago, but through the war I was not farming.

Q.—You are still a farmer? A.—Yes.

Q.—Just forget the recent discussion, and come right back to the simple question, what influence has dealing in futures upon the price received by the producer, in your judgment? A.—In my opinion dealing in futures as it is carried on at the present time is injurious to the prices received by the farmer. Now, that is my opinion, and I would just like to give some reasons why I have come to that opinion. When I first came to this country our usual mode of transportation was with oxen. A man would drive a load of grain to town in one week, and he would return home and perhaps return with another load the next week. He found very often when he delivered his load of grain he would like to know just what grain might be worth the next week, and rather than making this long journey, and probably find it had gone down a great deal, because in those days it fluctuated considerably, he probably would make a deal and say, "What will this particular sample of grain be worth in the middle of next week, if I return with another load," and he entered into an agreement to bring it in at that price.

Q.—That is what he would get for his future delivery? A.—Yes.

Q.—So he made a sort of a little amateur future of his own? A.—Yes, I believe that I am of the opinion—of course, this is just a common or garden farmer's opinion—I am of

the opinion in those early days when the grain trade was as organized, we had paid the man who gave the service, the man who invests his money, they built elevators. They bought the wheat. They sold their wheat for home consumption or for Overseas export and in conversation with these gentlemen they have told me that hedging was absolutely necessary for them to carry on their work. But as the years have gone on I can see that idea has changed. We have all changed. We know tremendous changes have taken place in regard to their attitude and to-day I would just like to refer to the trader, meaning the man who actually renders the service, and the man, as you call him, the speculator, because I think the trader was a speculator. He was the man who used his best judgment, who bought the wheat with the idea of making some profit until now he has corrupted the scheme of things and he is unethical and induces other people to gamble in futures. He is not a gambler himself at all. He is like the bookmaker in regard to the racing game. He plays safe and sells the other man the futures and he gets the commissions. When they are re-sold he gets a commission as well. By advertising and other propaganda he is practically carrying on a method of gambling which apparently is legalized. As I understand our Provincial and Federal laws we forbid gambling. We have even stopped gum machines but yet, apparently if a man is big enough and has a big enough office and an expensive suite of furniture he can then sell futures and instead of making nickels he can make probably thousands of dollars and it is considered quite all right. From the average farmer's point of view, that is what we are objecting to. We object to inciting people to gamble and by their gambling we consider interfering with the proper channels of commerce. There are certain things from time to time that influence us farmers. One of the things that influence us is the Press, and certain things we read in the Press that make us somewhat afraid and irritates us. Mr. Chairman, I would like to read you one little article here that worried us and that is in regard to the amount of grain or so-called grain that is bought and sold at the present time or in the last few years by this method of futures trading. I would like to read a little cutting from The Calgary Herald, of September 23rd, 1930, entitled: "Gambling Charged", the place is Topeka, Kansas, the date is September 23rd. "Investigation by Secretary Hyde into grain gambling. Chicago Board of Trade was urged Monday by Senator Arthur Capper, Republican, Kansas, characterizing the recent Russian wheat transactions on the market as a drop in the bucket, compared to the amount sold by bear interests. Senator Capper said that only a few years ago grain gamblers sold nearly three hundred million bushels of wheat short on the Chicago Grain Exchange in three days causing a drop of 62 cents a bushel." Whether or not that is really authentic I do not know, but it is something that was published in one of our local papers and farmers throughout the province and Western Canada have read that.

THE CHAIRMAN—Is it your feeling it ought never to have been published. You do not object to the Press giving currency to something that has happened, do you? A.—I like to think our Press is instructing the people.

Q.—If that is true, is that an item of public interest? A.—It is, yes.

Q.—You do not object to the Press publishing these things but you object to such things having happened in order for them to publish them? A.—I rather take that view, yes.

Q.—You were urging the point that influences were brought to bear upon people's minds to induce them to gamble? A.—Yes.

Q.—Is not that rather checking people from gambling? A.—I probably have got away from my point, sir, in this particular article.

Q.—I do not want to worry you but I am trying to see that my mind meets yours exactly, and we started off listening to you about the way in which this market is worked up by men who get the commissions out of it? A.—Yes.

Q.—They are not speculators themselves, they are standing clear. They are getting the market excited and diddery in order to draw people in and out and draw the commissions? A.—Yes.

Q.—And these gentlemen are helped by the Press? A.—Yes, by advertising.

Q.—By advertising in the Press. You do not mind the Press telling the public of specific complaints that are made about gambling and losses that have been made? A.—I think it is the duty of the Press.

Q.—So that that particular thing while it throws a flood of light on a particular transaction in the United States does not, it is not an illustration of people being led into the gambling instinct, is it? A.—What it brings out in my mind is this, sir, that I think, of course, I am not very well posted, but I think the amount of actual wheat imported from producing countries is something like six hundred million bushels and we have an instance where half the exportable wheat was sold in three days.

Q.—You are on the point it is a question of gambling by the way we see statistics of futures sales exceed the actual production? A.—That is what I have in mind.

Q.—And you feel disturbed, you feel there is a tremendous amount of speculation and gambling going on because the statistics of futures trades are so much in excess of the actual product of the wheat? A.—Yes. That is why I think it is gambling.

Q.—Supposing it were six times as great and it can be shown to you that the same wheat was being hedged at different stages in its onward career and they were all stages of hedging in the particular wheat and nobody simply speculating without an interest in

the grain. Supposing it happened six times over, would that clear your suspicions? Or your fears? A.—I would think that might easily occur in using the system six times.

Q.—That would not worry you. It is only where people sell and buy wheat that they are not interested in? A.—Just think over those figures. Assuming that is not the correct figure and only half that amount was sold in the three days but multiply that by 200 days that the Exchange might be in operation and we have an astounding figure. That is a thing that worries me.

Q.—You say that must exceed any legitimate amount of serious hedging. It is so large in your judgment it cannot be the result of the hedging system pure and simple? A.—I cannot see that it could.

Q.—It is so large you feel the hedges won't account for it, even repeated hedging? A.—I cannot help but be influenced by things I have heard here. The last discussion was a question of speculating and so forth. Well speculating is legitimate as I understand it. I do not know whether I have the proper idea of speculation. Speculation is where a man uses his best judgment, he sizes up the stocks or bonds or the business and he finds out its capital and what it earns and so forth and he invests his money. But where a man goes and buys futures, a man who probably never farmed in his life, the same type of men who are gambling in this thing as on horses and football and anything else, that type of man, does not know anything about wheat. He does not know what the exportable surpluses are in the world. He has never gone into the figures. He sees something in the papers, where a certain broker says "Buy wheat at ten cents a bushell" and so many dollars had been made. He thinks it is all right. That is gambling according to my idea. It is not a speculation. He is not going into it intelligently.

Q.—You think if a man makes a profession of very carefully studying world conditions in wheat and arrives at certain definite conclusions, that he may render a service by doing something for the individual farmers, that they have not the knowledge or the time or the inclination to do for themselves, and that he may carry this for them and receive an income for so carrying them and still be a worthy member of society? A.—I would not judge that a man like that would be a worthy member of society. The conclusion I have arrived at, sir, during the period of years I have studied this, is this, that there is only one method for the farmer to sell his product and that is through a co-operative selling agency and that if anyone shall carry the risk, the farmer must carry it himself. If anyone else carries the risk he charges it back to the farmer. If a man charges a certain spread to-day on a certain thing he does that hoping it will be less than the spread he is charging and he will make a profit.

Q.—The people who buy the farmers' risk they can either carry the risk or they can obviate the risk by hedging. Now what do you think is the influence on the price they will pay the farmer if they hedge. Will they be able to afford to give him more or less? A.—I would like to say, sir, that our logical goal is the co-operative selling agency. We have a system in operation just now and I believe from what I understand that hedging is necessary to this system. The Wheat Pool does not necessarily need to hedge with a one hundred per cent pool.

Q.—Do you think the hedging system could be got rid of by a 100 per cent Pool? A.—My opinion is absolutely.

Q.—Now would the farmer get a higher or a lower price under those conditions? A.—The farmer would get the fair world's price based on supply and demand. He would not be paying a man the money he has to pay out for services rendered through the various grain exchanges. There should not be any gambling or manipulation of the farmer's crop, providing he can handle that particular crop himself and bring it into the hands of the consumer and that is what the Pool is trying to do.

Q.—Your answer to the main question would be that, as I understand you, that the influence of dealing in futures upon the price, is not nearly as good for the farmer as the alternative remedy you have to suggest? A.—No, we feel that until we can substitute a better system the present system must prevail as it is, while we do not believe in it. The Pool is endeavouring to bring about better conditions of living. At the same time we have to recognize certain conditions that may be necessary so as not to create chaos.

Q.—That is, I have to look at it logically, you are not saying that the system of futures is producing a worse situation for the farmer than something totally unregulated without futures. What you are saying is, it is not as good as some other system you could introduce? A.—That is what I am trying to say.

Q.—You have not reached the point that you would rather have a completely unregulated system. A.—I did not get that.

Q.—You see there are three possible things we are working between. The first is, the existing system as worked? A.—Oh, yes.

Q.—The second is, no system at all and the third, is a system that you would prefer, the one hundred per cent pool. A.—As I said, about the one hundred per cent. pool, until we arrive there I believe in using the system we have and eliminate this gambling.

Q.—You would say that the futures system, with these elements taken out of it, is better than a completely unregulated system but not so good as your system of regulation? A.—That is my idea. I would like, as an example to say, that there are a good many institutions in this country quite worth while. You can take. for instance, the Country Club, operated for sport and social intercourse. It is a very fine institution, carried out

in a proper way, but if it is used as a gambling joint then it is wrong. I have the same attitude towards the organization we have in front of us now.

Q.—We know in human affairs, all things can be abused? A.—Yes.

Q.—Have you anything more to tell us? A.—I do not know that I have sir.

Q.—Tell us, how many farmers outside the Pool in your judgment, hold wheat for a rise? A.—I can tell you what happened last fall in my district——

Q.—I would rather know about normal years. Last fall the most virtuous people seemed to have been tempted out? A.—I would like to mention, seeing you do not live in this country that over a long period of years it has been the practice for everybody to advise the farmer. The banker, the manufacturer, and last fall and a year ago last fall, certain members of the grain trade advised the farmer.

Q.—The farmer has a good many advisers all along.

By Mr. Commissioner Evans:

Might I ask there, did not the Pool also advise the farmer? Did you listen in on the Pool radios a year ago last fall? A.—I am not talking about the Pool just now.

By the Chairman:

Q.—Anyway the farmers have lots of advisers? A.—The farmers were advised by their own friends. I know men who were advised by very good friends belonging to the grain trade that wheat was going up and had to go up and they bought and they got bit and that is just exactly what happened and the very people who advised them blamed them for doing this thing.

Q.—That is adding insult to injury. But you were going to tell me in normal times what farmers did who were outside the Pool. Did they hold their wheat for a rise or sell right out? A.—As a rule I find out over a long period of years that probably eighty per cent. of the farmers had to sell immediately. It is a question of getting their wheat in.

Q.—They had not capital enough to wait? A.—No they had to sell. There was a certain amount who had money; and others, they were mixed farming and probably a man had cattle and growing grain as well and he would sell his cattle and hold his grain. Some years he would sell his grain to hold his cattle. But we have found in the main that the man who took the first market, that is the first week or ten days, usually had the best market of the year.

Q.—The man who got quickest in the market was the best? A.—The market was stronger then than maintained during the next few months.

Q.—That was regulated by the supply and the rate at which it came in? A.—Yes.

Q.—It has not been the practice of farmers outside the Pool to hold their wheat. They have not been able to? A.—No I do not think they have held their wheat. I think they would be governed by that proportion. I do not think more than twenty per cent of those outside the Pool would be able to hold their wheat.

Q.—Apart from last Fall were farmers, in your judgment, speculating in futures, making deliveries and when they had sold their wheat speculating in futures? A.—That has been the practice for many years, people have been so advised and they fell for the information that it was quite safe to sell their wheat in the Fall and buy May options.

Q.—And that has been common for them to do? A.—Yes.

Q.—Apart frem last Fall, did it pay them? A.—I have never bought or sold or had anything to do with the options and I cannot say. Those who have made money have told everybody and those who have lost have not. That is about all, sir.

THOR BROWN (called).

By the Chairman:

Q.—Your name? A.—Thor Brown.

Q.—Where do you live? A.—Munson, Alberta.

Q.—And you are a farmer? A.—Yes.

Q.—How many years have you farmed? A.—Twenty-one years.

Q.—Now, the question before us, Mr. Brown, is the influence of the system of futures, dealing in futures, upon the price received by the producer; now, what do you think about it? A.—Well, I think it does not reflect the world prices, for the dealings in futures, sometimes they boost it higher than it should be and other times they depress it. I have been following the market reports published in the newspapers and sent out over the radio during last Fall and there were a number of reports, I have one here, I just picked up some that I could find in old papers, there are some that I wanted that I could not find. Here is one in the "Calgary Herald," December 4th, it says: "Wheat values threw off the bear burden of the past few days and shot up 2⅛ cents to 1⅜ cents on the grain market today. The last half hour witnessed the spurt as shorts decided to cover their lines. They found wheat scarce in the pit and quotations mounted steadily until the final gong.

"Weakness at Liverpool and unchanged prices on the Buenos Aires market failed to deter rising values." Well, there the market went up, and you would not have expected it to.

Q.—What date was that? A.—December 4th.

By Mr. Commissioner Evans:

Q.—Did you follow the market for a day or two after that to see whether the other markets responded? A.—No, I did not, I just picked out some old papers I could get hold of.

By the Chairman:

Q.—You are feeling that the newspapers with that news ought not to have appeared? A.—No.

Q.—But that is an indication of the kind of things that happened? A.—Yes, it shows there that the prices did not follow the trend, the real trend of prices, the futures prices.

Q.—And do you think that the reason for that lay in Winnipeg or in Liverpool? A.—It was the Winnipeg prices which were quoted there, and not the Liverpool.

Q.—But, of course, there is a close relation between the two? A.—Yes.

Q.—And you would not go far astray if you would look at the Liverpool prices, you might occasionally, but you might say there was somebody in Liverpool not playing fair by you? A.—You might, but that was referring to Winnipeg.

By Mr. Commissioner Evans:

Q.—There was an initiative shown in the upward direction in Winnipeg, but you didn't follow it to see whether that was met by corresponding rises in the other markets in the next few days? A.—No.

Q.—But your feeling is that that brings about greater fluctuations? A.—Yes.

Q.—And do you feel that during the years the farmer gets less Money? A.—I think as an individual he is affected, he has his wheat on hand there, and where he is hauling it himself, he cannot get it in, and he has to take the price on that date, and he may be something, some cents below what the real price should be. Other times he may get more. There was another report, I couldn't find it in the paper but I remember it, it read like this, that wheat prices opened firm on good Overseas buying, but owing to selling pressure from Chicago the market fell. I think it was about five cents, but I would not be sure about that. Well, there, the Overseas buyers were willing to take our wheat at that price and yet owing to selling pressure from Chicago the price went down. I do not think that should affect the real value. The real value is what the buyer is willing to pay.

By Mr. Commissioner Evans:

Q.—Unless the attitude at Chicago really represented the world's position, and the other attitude merely represented a local condition, that is something you cannot tell? A.—No, but this was Chicago selling on Winnipeg.

Q.—Probably they were doing what is called spreading, that is, they were supporting another world market, either in Liverpool or Chicago, by doing that, and selling this just to keep them all in line, you couldn't tell from that? A.—It was this report.

Q.—You would have to get the prices from the other markets to compare that with before one could tell whether they were getting out of line or in line?

By the Chairman:

Q.—Some times you might get Chicago pulling the Winnipeg prices up beyond what it should be, it probably works both ways, doesn't it, you pick one way but possibly we could find tradings in Chicago has pulled the Winnipeg prices up a little bit? A.—Well, if the buyer was willing to take it at that price.

By Mr. Commissioner Evans:

Q.—I see what you have in mind, that the good Overseas demand overnight——. A.—Yes, I think that is what represented the real price.

Q.—You see, all the exporters send out cables at the close of the market every day, to all with whom they are in touch in Europe or other countries, the buying trade, and they can never tell how many of those offers are going to be accepted the next morning, the offers are put out good for acceptance until the following morning. If they have an unusually large number of acceptances on the previous day's prices and they have not fully secured themselves for that large volume of wheat, then these Winnipeg merchants must go into the market and buy more, and it might have been that which was the buying, and the merchants who bought at these higher prices might have lost money on them. We would have to compare the closing of the day before on which the offers went out. It would be an intricate situation. I see what is in your mind.

By the Chairman:

Q.—Yes, I follow your difficulty entirely, you thought there was a natural expression of demand and supply from Liverpool, and then somebody butts in from Chicago and pulls the price down? A.—Yes, it certainly read that way.

Q.—Now, Mr. Brown, apart from people in the Pool, is it your experience of farmers generally that they hold their wheat for a rise? A.—No.

Q.—They sell it? A.—Yes.

Q.—Partly because they do not want to speculate in the fluctuations and partly because their financial circumstances force them to? A.—Yes, in the last few years there has been a great increase in futres buying. They have sold their grain and bought futures.

By Mr. Commissioner Evans:

Q.—There has been an increase of that among the farmers in your district? A.—In our district there is, I think it arose largely from the propaganda which was put out a few years ago, from the grain trade, advising the farmers to do that.

By the Chairman:

Q.—They had propaganda saying that that was the proper thing to do? A.—Yes, there was all kinds of it in the agricultural papers.

By Mr. Commissioner Evans:

Q.—In what form, advertisements by commission men, or what, do you remember? A.—No, I don't remember, we were getting it all the time.

By the Chairman:

Q.—They were being rather stimulated to adopt this method? A.—Yes.

Q.—And has it paid them in the long run? A.—No, there have been a few who made money, they told when they made, and the rest of them, I think they lost. There were a great many who bought in 1929, they bought at higher prices, around about $1.40 or so, and they lost their whole crop.

THE CHAIRMAN—Has Counsel anything? Nothing more? Thank you, Mr. Brown.

WITNESS—Excuse me, I had another one here, I forgot to bring it out.

THE CHAIRMAN—Surely, come on.

WITNESS—This was in the "Grain Trade News", "Offerings at the outset were both substantial and general, but they were well taken care of by seaboard interests, indicating further improvement in the export situation", and then it says; further: "Early gains fade through hedging in later stages," that was another case of where——

By Mr. Commissioner Evans:

Q.—In that case the Canadian situation influenced the price, the hedging came on, that was a Canadian situation? A.—Yes, they were selling futures and knocked the price down below what it should be.

Q.—Well, hedging, that repreesnts a Canadian situation? A.—Yes, that was hedging gave the same result.

Q.—That was cash wheat which was in existence in Canada. You get the two situations there, there was the Canadian situation supposed to be influencing the price level, and the other you raised before, it was an influence from the outside which was affecting price levels? A.—Yes.

Q.—So there are the two forces? A.—Yes.

J. R. MURRAY (called).

By the Chairman:

Q.—Your name? A.—J. R Murray.

Q.—Your occupation? A.—Manager of the Alberta Pacific Grain Company.

Q.—Will you tell me, just tell me a little, what that company is? A.—We operate 373 elevators in Western Canada, with terminal elevators at Vancouver, and have an interest in terminal elevators at the head of the lakes.

Q.—Will you tell us what you have to say about our problems, the main problem is what is the influence of dealing in futures on the price obtained by the producer? A.—I think briefly I would attempt to answer that in this way, the futures market in Winnipeg is a world market, and in that it accurately reflects the world's opinion as to the value of wheat, it is of benefit to the producer. It brings the world value of wheat right close home to the producer in Western Canada.

Q.—And in that sense it tends to give the farmer a better price than he would have got under an unregulated system? A.—I think undoubtedly.

Q.—Does it increase or reduce the fluctuation from time to time in the price? A.—I think the general tendency is to decrease the fluctuation.

Q.—If you had any system, I presume your own company hedges when they buy wheat? A.—Yes.

Q.—Do they stick to that pretty systematically? A.—Yes.

Q.—How would they carry on their business and decide on prices if they had to carry the risk themselves? A.—The risk would be increased and they would have, in buying grain in the country, to take a wider margin to protect themselves against that increased risk. I think it is a fact, not only in grain business but in any business, that increased risk means that the party taking that risk will have to increase the margin for their own protection. They would probably take what increased margin they thought was necessary and then in order to be safe take a little more. I think that would be the general course.

Q.—Would it make any difference to the way in which they financed themselves? A.—Yes.

Q.—What kind of difference would it make? A.—It would be very much more difficult to finance with the banks.

Q.—You mean banks would advance you less on unhedged grain? A.—Much less, they advance now within ten per cent of the value and depending, of course, on the price

of grain from one year to another, whether it was high or low, they would certainly increase that margin. If the price was considered on the high side they would increase it very much and then grain companies would have to have a great deal more capital of their own employed.

Q.—That is, there would be fewer people in competition in your line of business? A.—Yes.

Q.—And the market would be more open to influence by individual dealers? A.—You say would be more open to dealers——

Q.—More open to dealers handling the grain in their own way? A.—More open to dealers handling the grain in their own way.

Q.—Supposing there were fewer in your line of business, competition would be less keen? A.—Yes.

Q.—And if competition were less keen in individual cases they might be able to get more out of the farmer? A.—Yes.

Q.—It is in the farmer's interest that competition in your line should be keen? A.—I consider so.

Q.—And the way you finance yourself from the bank enables people to come in who otherwise could not? A.—Yes.

Q.—And, therefore, that does make, the hedging system, does make a keener competition in your line? A.—Undoubtedly, I might just, in mentioning the hedging system and competition, say there is one other thing that it does. Any man, at any time, whether he has one hundred bushels of wheat to sell, I just use wheat, at a country point, or has fifty thousand bushels to sell, produced himself, and wants to sell it, he can come in in the afternoon after the market is closed, or at any other time, and he can sell that grain on one minute's notice to a grain firm and owing to the fact that there is a fluid open market, grain firms will buy it on that basis.

Q.—Even after the market is closed? A.—Yes.

Q.—The buyer being pretty well satisfied——. A.—Knowing pretty well his risk is being covered the next day. He knows he has a risk until the opening of the market the next day, but he knows that on the average, that risk is limited from the fact that it is a fluid and open market which will open not very far away from to-day's close.

Q.—Supposing there was no hedging, couldn't he do that? A.—No, he would not buy it on the same margin.

Q.—He would not dare? A.—No, sir.

Q.—And, therefore, the farmer has not the same opportunity of a ready sale under an unhedged system as he has under a hedged system? A.—We have not had it tried, but it would be the one definite way of proving that he has not, to try it out, and he would find he didn't have.

Q.—You feel then farmers have been getting a better price? A.—Yes.

Q.—You are brought into contact with the farmers a great deal and you know from the way in which they deposit the grain with you and the time they sell it what they are doing, is it your experience that the non-Pool farmers hold their grain for a rise? A.—That has varied a great deal in the last twenty years, I would think that there was more holding of grain now by farmers than there used to be ten years or fifteen years ago, and a better understanding on the part of a great many of those farmers as to the way in which they can do that or use the futures market to their own advantage.

Q.—Does the fact remain that they are holding it more now than they used to, it means that there are more of them with the capital to do it or more of them with a knowledge to do it? A.—Some of both.

Q.—They are better advised and they study more and there are more of them that can afford to do it? A.—I think so.

Q.—Do you think as a practice it is paying them to do it? A.—My opinion of that would not be as valuable as the records of open market prices over a period of years, and I have not recently attempted to study that. I heard the view expressed here to-day, this is the first session of your Commission that I have had the opportunity of attending, I heard the view expressed that the man who sold early in the fall got the best price on the average. I think there are some studies that prove that but I have not looked into them recently.

Q.—That is all you can tell us about the practice of the farmer for holding the general view that it has become more prevalent lately, for those two reasons. Now, can you tell us, do you know anything about the practice of farmers, having sold their wheat to you or to anybody else, going into the futures market? A.—Yes.

Q.—Do you think they do that on any wide scale? A.—The volume of that, I would think, has increased, what the percentage is to the whole I do not know.

Q.—You would not hazard a statement as to whether it has been a great proportion of them or not? A.—I think it has been a fair proportion.

Q.—And would you hazard a statement as to whether it has been a good practice for them to do so or not? A.—It has been a good practice for the man who will consider that future which he has bought, just as he would consider the wheat, if it was in his own granary. That is, that he will hold it until some time, such a time as he feels the

price suits him, or until such time as he decides the price will not go to where it will suit him. If he considers it as actual wheat in his own granary, he can hold it sometimes more cheaply than he could hold the actual grain, and it is not any more of a speculation for him to hold it than the actual grain. If he confines himself to that I think he is using a very sensible way of marketing his grain. If he lets that lead him into indiscriminate speculation for which he is personally not fitted then it will probably do him harm.

Q.—Does it do the system harm too, do you think? A.—The system of futures marketing?

Q.—Yes, you say, Mr. Murray, you hedge, and you get rid of your responsibility and, therefore, where there are excesses and abuses in the futures market, they do not affect you very much, do they? A.—Well, perhaps not very much, but to the extent that there are any abuses or excesses in any business in which one may be engaged, it certainly does not do anyone any good if there are such.

Q.—Do you think there are such in this business, that you can put a definite suspicion upon? A.—No, I do not think so, I heard some reference made to what might go on behind the scenes and I interpreted it as possible attempts made to get a body of men together to influence unduly and for ulterior purposes the course of the market, and that that influence might be brought to bear on men actually doing the trading in the pit. Now, I traded in the pit myself for a good many years.

Q.—Before you had your present position? A.—Yes.

Q.—Before your voice gave out? A.—It is still good. During that time, and I would like to give this as very definite evidence, during that time no one ever approached me, directly or indirectly, to suggest that I be a party to any such thing. In addition to my own experience in that respect, I naturally knew men who were trading in that pit, some of them more intimately than others. Being friends with some of them outside of business hours, I knew some of their troubles, trials and tribulations, as they knew some of mine, and I never heard one of them suggest to me that any such propositions had been made to them, and never to my knowledge has there ever been anything like that in existence on the Winnipeg Grain Exchang.

Q.—How long were you in the Winnipeg Grain Exchange? A.—I have been a member of it since August, 1912. I was in the grain business before that, but had not got to the position where I was a member.

Q.—There seems to be to the uninformed outsider great publicity in the pit, with all the bids and offers and bargains, and everybody seems to know what is happening, and it goes up on the board in some mysterious manner, and it seems to be very public, but I take it that most of those who are shouting and taking these proceedings are really not principals are they? A.—Most of them are carrying out orders.

Q.—Are there, behind the scenes, people who are giving them orders to carry out, are they collecting together, in your judgment to push the price up or down? A.—I would answer not only in my judgment but from my own knowledge that is not the case; they are not doing it.

Q.—What would happen if that were done? Supposing a whole lot of people said, "Let us have some fun this morning, let us push it up." That could go on behind closed doors, and where there is the appearance of publicity in the pit. Tell us how you would think that would work out? A.—Well, I think over a period of time it would work out that the result would be the shrinking of their bank roll.

Q.—You think they would lose money over it? A.—Yes, sir, for this reason, if they were doing that just for the purpose—I understand this could only be the purpose—of getting together and saying "let us push it up or push it down", and their object would be putting it up or putting it down, not because of their judgment of world prices.

Q.—Because they wanted to steal an advantage of the rest of the Exchange? A.—Wanting to steal that advantage they would be going against the world opinion of the value of wheat, because that world opinion of the value of wheat is registered in that market, and anyone who consistently tries to buck that world opinion of the value of wheat, their bank roll will shrink in my judgment.

Q.—Any little clique like that would have to be fairly constant and very, shall we say, loyal to each other? A.—Yes.

Q.—Because you may have a clique like that acting for two or three hours, and then one of them breaks away and endeavors to steal a march on the rest? A.—I think that would be very likely to happen.

Q.—So if these little cliques exist they must be fairly constant, and you would probably get to smell that they existed, you would see always the same little group of people hobnobbing together? A.—You would see their traders doing that, if they were hobnobbing behind closed doors.

Q.—And you would think if they went on day after day that would be seen? A.—Yes.

Q.—In your experience you have never seen that? A.—No, sir.

Q.—Supposing they did it they would be stealing a collective advantage against the rest of the traders in the pit? A.—Not necessarily, they might do something that would be of advantage to the other traders. The other traders, might prove to be right, the opposite side to this clique, and they might make the money, and the clique lose theirs.

Q.—They might over-reach themselves? A.—Yes.

Q.—I want to see what the effect would be upon the price the farmer would get, whether this little over-reaching game between themselves, in which one party would lose and the other gain, or whether that is not so, would it go right outside and affect the average price to the average farmer? A.—It would not affect the average price, because while the small clique might have some effect temporarily on the price it would not last.

Q.—What I want to see is whether an advantage is got; assuming it could be gained by that amount of collective action, whether it would be at the expense of the farmer, or at the expense of the other people in the pit? A.—I don't think the advantage would be gained. I think it distinctly the other way, but if it could be, it would be very temporary, and my opinion is that it would be a temporary advantage that would react at the expense of the clique who put it on, not on anybody else.

Q.—So you think honesty is the best policy? A.—I think business generally has demonstrated that. That wasn't the idea of twenty-five or thirty years ago, in business, but the soundness of that belief has been demonstrated in that interval, and is now held by the majority of business people.

Q.—And lack of honesty, unless you are frightfully clever, does not come off? A.—If you are frightfully clever, of course, you know better than to lack the honesty.

Q.—Well, now, I value your opinions because you had that contact with the Exchange and yet you are not at the moment a part of the machinery⅜ A.—I am a member of the Exchange.

Q.—But you are not now doing the same work as you were then doing? A.—No, I do not do the actual trading.

Q.—You are looking upon it a little more objectively than you would have done otherwise? A.—Yes

Q.—So we must take your evidence as being valuable, first hand evidence. Although we would like to know what other people think that other people think, but it is not so important to us as what people know themselves. You have told us that you do not think that kind of business exists. Will you tell us whether you think that there is too much commission agents' activity interested in keeping the market in a constant state of excitement in order to draw a commission? A.—I don't think so. I don't think there is for this reason. In marketing a world's commodity, and I think there is no commodity that is more generally a world commodity than wheat; there are new wheat crops coming in to the market, being harvested, perhaps ten months of every twelve, and of course you gentlemen know the particulars of that better than I do. We have people from one end of the world to the other wanting to sell that wheat, and people from one end of the world wanting to buy that wheat in different countries. If you can get in one, two or three, or half a dozen common centres, somewhere in this world, a market that reflects the opinions of the people who deal in that commodity, and their judgment as to the immediate value of wheat, and their judgment as to the future value of wheat, and you can give that judgment free play in that market, I think you will get in such markets a more true reflection of the actual value of that commodity to the world and to the consuming countries, than you can get in any other way. If you are going to have such a market in my opinion the only way you can have it is to have it free and unrestricted. Individuals, according to their occupation, according to the views they get later on in life, have varying opinion on what is right or wrong, or improper. Some people deplore speculation, other people deplore gambling as being something worse than speculation. Other people consider that there is a speculative instinct inherent in the human being, and that they can't stop it and can't change it, and if they want to speculate in grain prices or cotton prices or lard prices, or any other prices, that the best thing is to let them do it. Well, the extent to which anyone with money will come and speculate, and either buy or sell grain, they are helping to make a fluid market in which the buyer abroad, whether a miller or importer, whatever he may be, where he can readily at any moment buy his requirements of wheat. The commission man that you asked me about, he makes his revenue, his living out of commissions that he gets for executing orders. He can't exist and continue to exist and be successful by the mere act of inciting people to speculate. He must render some service and some value or he can't continue to exist. The bulk of his business must come from people who are willing to pay him those commissions because he has rendered them some service or done them some good, or he cannot continue. He may have a fringe, or a portion of his business that may be from people who are there today and gone tomorrow because they lost some money or made some for a while and then they have lost it, but generally speaking, he has got to render real service for his commission, and his business does not exist entirely, probably only a small portion of it comes from the small speculator whom some people consider has no business in the market.

By the Chairman:

Q.—Still, he does have a bigger income at times of excitement when people are coming in and out and a lot of people are buying? A.—Yes, but he can't make that excitement.

Q.—You don't think because he makes his money by commissions he stimulates excitement? A.—He can't make the excitement. He may temporarily express his opinion that something is going to happen; he may put some things in his market letter that there is something going to happen to grain. The average speculator waits until it is well on its

way towards happening, or it has happened, and then he gets into the market. He doesn't come in because the commission man tells him to.

Q.—Supposing there were no commission men, and supposing you had an official whose duty it was to exercise a supervision over all buying and selling orders, say for a salary, and it was his duty to send out market information about prices, statistics, quantities, and so on, but he wasn't interested in any way in whether the market was active or not, do you think that would have any influence on the gambling instinct?

Q.—I think within a reasonable length of time, not too long, you would have a demand, a very decided one, that people should be allowed to employ their own commission man to do that, and not depend on these officials. I think they would be dissatisfied with the results. We have now, and it is not confined to Canada, we have in the United States—that quarter has been quoted, and I don't think we need to follow them in everything, but I make use of that as an illustration—you have government officials, statisticians telling us what the expectation is in regard to the world's supplies, and they go so far as to forecast what may happen, and I think if anything they are regarded as worse and they come in for more condemnation, or damnation, than the grain man.

Q.—I suppose any man who expresses an opinion that he does not have to back with his own money may be in that position? A.—He is not likely to be as the man who has to back it with his own money. He will not be as cautious about expressing his opinion as the man who has to back his opinion with his own money.

Q.—So the commission man, either because he must render a service in the long run. or because he is using some of his own money, is likely to be better than an official? A.—I think so, undoubtedly. While the world is going more and more to officialdom, and government regulation, I do not think many of us are better off because of it.

Q.—It has been put to us, whatever its abstract virtues might be, this system is bad, because it provides a vehicle for all kinds of people who haven't the money, not concerned in the trade, to come in and gamble, and these lambs coming in become either bulls or bears, generally bulls, and they get trimmed? A.—They can't come in without the money.

Q.—They come in with the money, and they lose it. We are told that the system is bad because of that, and I want you to tell us whether you think it is bad because of its moral influence on them in that they lose money, or its disconcerting and upsetting influence upon the futures market and its regulations, upon the bona fide non-speculative farmer. There are two questions, the morals of gambling, and the mechanics of futures? A.—I don't want to express an opinion on the morals, I do not think I am qualified. As far as the mechanics——

Q.—I can't pay you any compliments because I don't know you. A.—As far as the mechanics it is not upset. And the market does not react against the farmer in any harmful way.

Q.—You think the farmers are under a delusion in regard to several of these things? A.—Yes, sir, I do.

Q.—They are honest delusions? A.—Yes.

Q.—And in some ways very natural ones? A.—Yes, sir. Might I just add something, I don't know that it adds to the value of my opinion at all, but just to give you this information. I was connected for nearly twenty years with a Farmers' Co-operative Company in Western Canada and because of that came perhaps in closer touch with farmers, and farmers' opinion on these matters than the average grain man. I have discussed these matters with farmers, heard them discussed in our annual meetings, and at farmers' conventions, and my honest opinion is that a great many farmers are, shall I say, mistaken in their views as to the advantages or otherwise of the futures market, and as to the detrimental effect that many of them believe it has upon them, and upon the marketing of their grain.

Q.—Do you think the degree to which they hold these opinions is very much stronger after a bad shake up or fall in prices, I mean a world fall? A.—It is hardly a fair question to put to me, sir.

Q.—I don't know. You are telling us quite frankly the extent to which you think the farmer is deceived in his views. I want to know whether that is constant, or naturally at a time when things are very bad, he looks around for something to blame it on? A.—I think the farmer is no different than the rest of us, grain men, or who we are, when times are bad we all look around for someone to blame our troubles on, and I don't think the farmers are a bit worse than any of the rest of us. As a matter of fact, I think on the average the farmers of Western Canada will stand up to the difficulties, and hard times on that account just as well as any farmers in the world, or any city men in the world.

Q.—That is their reputation in England. A.—That is something that I know from my own experience with them is true.

Q.—I am not blaming them. It is true. I should think it would be true to say of all walks of life, men see most clearly the things just around and near them? A.—Yes.

Q.—If they haven't an opportunity of seeing the whole picture, they naturally blame something that is mysterious or distant? A.—Your asking me that question brings another thought to my mind. I heard this morning a reference made to prices after the war. Now, during the war there was an organization in Western Canada, representing all

Canada in fact, The Canadian Council of Agriculture. And we had a Wheat Board organized. It was a question of what should be done after the Wheat Board. At the time the Wheat Board was organized there was a great outcry among farmers against it, because they felt it was going to keep the price from going higher. When it was first organized the opposition to it was intense. It started off, the Wheat Board, I think, with an initial price of $2.13. It was generally up and down this country condemned out of hand, at farmers' conventions and in other places, in fact, some farmer members at Ottawa at the time apologized for its existence, and said they had nothing to do with bringing it into being. Certificates were issued. They were called participation certificates. Many of them were burned in the farmers' stoves, because they thought they were not going to be of any value. Many of them were sold for one cent, or two cents, or five cents or ten cents per bushel before the end of the year. And that was the result, not of the virtues of the Wheat Board, but it was the result of world conditions as the record would show if it were examined into. That price in the spring, I have forgotten the year, but the price in the spring, largely due to a threat of a strike over in Great Britain, reached a very high price at the seaboard, somewhere near $3.50 a bushel. The Wheat Board disposed of the balance of its wheat then, and the result was that the price they had averaged for that crop was, I think, $2.63 a bushel. There was about fifty cents a bushel paid to the farmers. Those men who had not put their certificates in the stove, or sold them anywhere from a cent to ten cents, and many of those who had kept them, not because they thought they were any good, but they wouldn't part with them, they thought the Wheat Board was a wonderful thing, and they wanted the Wheat Board continued. Personally, I would liked to have seen the Wheat Board continue for another year to demonstrate this fact that the Wheat Board wasn't the thing which was responsible for the $2.63 price. Personally, at the time I advocated it should be continued for another year. If it had been it wouldn't have got $2.63, or anything like it the following year. It probably would have got—the market was started at $2.65 that fall. I know some farmers who sold their wheat that fall as fast as they could sell it on that market all the way from $2.65 to $2.25. If there had been a Wheat Board operating the next year the price would have been considerably less than $2.00, and the magic of the Wheat Board, or of government agency for marketing wheat would have been exposed. I think it would have been a useful and instructive lesson for everybody.

By the Chairman:

Q.—Mr. Murray, you feel people are suffering under a sense of injustice because they have a mistaken or too limited a knowledge of the factors at work. Is there anything or any way, in which you can suggest that that position could be corrected and they could be more fully informed or re-assured. For instance, it has been suggested that if certain things were made out nobody would be proved to be wrong but they would be like unlocking a closed door on what people thought was a secret which might be to their harm. Is there anything to be gained by the kind of publicity that has been suggested in removing these suspicions? A.—I think, sir, you would have to remove some people and I say this in all seriousness, and I say it considering the welfare of Western Canada and the farming community in Western Canada. I think you would have to remove some people as well as giving that publicity. For this reason. I do not wish this to be understood as being any reflection on a large number of the people or even on a large number of leaders among certain organizations. But there are some people who are in positions of prominence who talk very glibly of things of which they have little actual knowledge. The fault I find with them is for this reason that with the facilities at their disposal to acquaint themselves with the facts, I know of many cases in which they have never made any attempt whatever to acquaint themselves with the facts but they will at meetings, throughout this country, make statements which are not correct and which incite people and give people a wrong impression and conception of actual conditions. That is not general. But it is done and that is one of the things which creates this suspicion. I think that anything that can be done or that can be suggested that would have the effect of bringing leaders of farmer organizations, whether they are trading organizations or not trading organizations into closer contact and a better understanding of the machinery of the grain trade or the Grain Exchange and would get them more in the frame of mind to see if there was not some good in this thing, I think anything along those lines would be helpful and beneficial. But as long as some people feel that the way to make progress is to condemn out of hand and attribute all kinds of motives to what is existing and something that is an open trade organization, that any of them could, if they have quite reasonable financial responsibility, could become members of and could use, as long as people want to condemn that machinery out of hand, without learning all the facts, it is going to be very difficult to put things right by saying, "Well here is some information that we did not have before". Because the man out on the farm who does not so often get to town, he naturally puts some confidence in things that are told him at meetings by men that he has reason to believe should know what they are speaking about.

Q.—That is to say, there is a certain type of person who has a good deal of influence on the farmer who likes to have a bogey, or a grievance, and is not happy unless he has one and would be disappointed if you prevented him having one? A.—There is no doubt, in my opinion, there are such people, yes. I might say in my opinion they do no service to this country as a whole.

Q.—So that complete publicity of these things in order to show there was no trickery would not wholly meet the case unless you could remove this particular kind of profes-

sional pessimist? A.—Professional pessimist, I do not know that I would agree that is quite the correct description of him.

Q.—No, grievance maker or agitator? A.—I do not wish to take up time unduly but I might suggest this or give this to you as information that may have some bearing on any weight that you may attach to the evidence I may give. Before there was a Wheat Pool organized in Western Canada I discussed at farmers' meeting the Pool method of selling wheat. I am not going to touch on the policies or anything else but the Pool methods of selling and by that I mean a number of men getting together and deciding their own wisdom or judgment as to the best time to sell was not good enough and that they would rather get together and employ someone and give that someone their grain and let that someone sell it for them. I discussed that. I could not consider that there was anything wrong with that then. I visualized such a thing as a big benefit possibly to some men, but what percentage of farmers I never attempted to define in my own mind. I had the feeling that if such a thing was done that time and the result of the services that would be rendered would of themselves define what percentage it might be profitable to. My conception was that if that marketing was going to be done that to do it to the best advantage such an organization should use every bit of machinery that could be used that was in existence, that would help to sell the wheat for a higher price if it was only half a cent a bushel, higher. That organization would not be an organization to reform the world, to reform trading methods all over the world but an organization to sell wheat for more money for the men who had entrusted that wheat to them. My belief then and I have not changed it since is that to sell wheat to get the most money, whether it is done by an individual or by an organization that the use of the futures market is one of the things that would help in getting that most money and that it should be used. I might add one other thing. I think coming down to the realm of fact and your question as to the value of a futures market or otherwise, I do not know whether I worded it exactly, to the farmer and whether it helps to get him more money but I think you can find and I think there are facts in existence which demonstrate it. Take the year 1929, from the middle of July to sometime in the month of October, there were about 85 or 86 days on which the futures market in Winnipeg closed at $1.40 or a better price, ranging from $1.40 to about $1.72 during that period. During that period our whole carry over of the crop of 1928, some fifty million bushels or more could have been sold or hedged on that market at $1.40 or better. There is no doubt whatever about that, in those eighty-five days. If that had been done there would have been millions more dollars to have been distributed to the farmers who individually or collectively through an organization were the owners of that wheat. That would have had a further beneficial advantage, in addition to there being more money coming to them, because a lot of that wheat was sold later on at less than a dollar a bushel, it would have had the advantage of keeping our market in Winnipeg from going too high above the export value. A little earlier on we were selling our wheat, big as our crop was, we were selling it in competition with the Argentine and other wheat until we got this flurry of this bull market and we started getting out of line for export. If I had had forty or fifty million bushels of wheat to sell, and I do not think I am any wiser in selling wheat than anybody else, I know there are lots of people who are a lot wiser than I am, but if I had had it to sell and towards the tail end of the crop that market had gone that way I would have been thankful to Providence for the chance, and I would have hedged that wheat and I would have got that many millions more money for the people I was handling the wheat for. I think there is definite evidence of the advantage that the futures market can be. It is only one but it is a very important one.

By Mr. Commissioner Brown:

Q.—How long have you been manager of the Alberta Pacific? A.—Since the first of September last.

Q.—September, 1930, and prior to that what was your occupation? A.—I was assistant general manager of the United Grain Growers for a good many years.

Q.—For how many years? A.—Well, I was with them for nearly 20, and I think I occupied that position for about ten or possibly more years.

Q.—That is the company that Mr. Law is the manager now? A.—Yes.

Q.—Whose evidence we heard at Winnipeg the other day and between the period of manager of the United Grain Growers and the assumption of your present occupation what were you doing? A.—I was aemporary secretary of the Winnipeg Grain Exchange.

Q.—For how many months? A.—About six.

Q.—So that you are a man that the members of the Grain Exchange have a great confidence in? A.—No, I would not go so far as to say that, sir.

Q.—I think that is a fair inference? A.—No, I do not think that is quite correct. There was a difficult situation there and the secretary, the late Dr. Magill had died shortly beforehand and I was asked by the council to come in to do some work with this difficult situation that was there. There was no one else readily available at the moment and I did it, saying when I did, that I would not be able to stay permanently, and that was satisfactory.

Q.—I believe your selection was highly approved by all the members of the Exchange? A.—Oh, there are a good many kind hearted people in this world who say kind things about you.

By the Chairman:

Q.—You will find, I am afraid, there are some others? A.—I have found that, sir.

By Mr. Commissioner Brown:

Q.—So that whatever the farmers may think of you or your company or the grain trade, the grain trade, at least, had a very high regard for yourself. I think that is a fair assumption to start with. There are one or two admissions you made Mr. Murray, and I want to go through them with you for a moment. You say that if several speculators banded together for the purpose of affecting the market upwards or downwards that they might succeed temporarily, is that right? A.—Yes.

Q.—That is your statement, what do you mean by the word "temporarily" in that respect? A.—It might be for an hour and it might be for a session.

Q.—It could not be longer? A.—I would not say it could not be, I would say from my experience if it was possible to be longer and that they would make money out of it I would have seen it tried out on the Winnipeg market and that has been something I have not seen.

Q.—That is you think that if it had been possible for any effective work of that kind to be put over that you had the men on the Winnipeg Grain Exchange who were capable of doing it? A.—No, sir, I do not think that at all and I did not say it. My experience is this, that if there are 200 trading members there you get such a variety of opinions as to what the market is likely to do that if you want to canvas them and try to make up your own mind as to what you should do you would end up in a maze. You cannot get grain traders to agree on what the market is likely to do.

Q.—I am not suggesting on the Winnipeg Grain Exchange you have men who would do such a thing as that? A.—I thought you were, sir.

By the Chairman:

Q.—No, the word "capable" meant to have the ability to do rather than the willingness to? A.—I interpreted it the other way.

By Mr. Commissioner Brown:

Q.—No, I am not suggesting that because I do not know. Any of the members I have met of the Grain Exchange seemed to be very fine gentlemen. What I want to get at is if men were so disposed on the Winnipeg Grain Exchange or any other grain exchange to do that kind of thing could they successfully do it over a longer period than a day? A.—I do not think so.

Q.—You do not think so? A.—No, sir.

Q.—You would not say that it could not be done? Assuming they had the capital, of course? A.—To say what could or what could not be done, I think I can best answer that by the answer I gave the Chairman, and that is that I think if they did try the result would be a shrinking of their bank roll.

Q.—You think they are the ones that would suffer? A.—I think so, yes, sir.

Q.—That is that they could not depress the market or advance the market and swing around so rapidly as to beat all comers and take advantage of it? A.—They would be wiser than any people I have seen trading if they could do that.

Q.—Well, they are supposed to be wiser than the others? A.—They may be supposed to but I do not know whether they have the tangible evidence in their bank accounts to show it.

Q.—You have never heard of men who apparently were wiser than their brothers in speculation? A.—I have heard some wonderful stories of speculation in various markets and in various commodities. I have even read Mr. Lefebre's articles in the Saturday Evening Post, in which he says you cannot beat the game and he is an authority.

By the Chairman:

Q.—Are those efforts in fiction or records of fact? A.—They are records of fact, sir.

Q.—I do not know them, I may say? A.—Yes, they are records of fact and very interesting articles.

By Mr. Commissioner Brown:

Q.—Another thing that rather amazed me you said that assuming that several of your operators had agreed on a contract of that kind to go in together and affect the market that one of them would be very likely to break the contract and beat the others to it. Did you mean that? A.—I did not say that they would be very likely to. I think the Chairman suggested that, that if some clique entered into an agreement like that perhaps there would be one who would slip out and beat the others to it and I agreed with his view.

Q.—I thought it was you who said that and he agreed with your view? A.—No, I think the record will show that.

THE CHAIRMAN—I was the one who was trying to be the rogue for the moment.

By Mr. Commissioner Brown:

Q.—Well, at any rate, I think the witness is clever enough and capable enough not to fall into a trap so I assume——. A.—No, I am not.

Q.—And I assume, although the Chairman, might have suggested that, that when you agreed with his opinion that you meant it. Would that be right? A.—Oh, I think that

human nature being what it is the world over, sir, that that kind of thing is not confined to people trading in the grain business.

Q.—Well, what I want to get at is this, could any several operators enter in to an agreement of that kind, and if they did would they not likely stick to it and carry it out or endeavor to carry it out? A.—If you gave me the list of men who were entering into a contract of that kind and I knew them I could answer that question and I would answer it on my individual judgment of those men, and if you gave me the list of another group of men, I would say "That clique would not last five minutes."

Q.—Quite so, but if those men were so intelligent as to enter into a game of that kind, are they not likely to size up their co-partners? A.—I would not consider they were intelligent to enter into it, because, as I have stated, and I want to go back to it, if they started today and tried to influence that market against the trend of world values I do not think they are intelligent and they will lose money.

Q.—I know that is your view. Now, I will go on to one more point, and that is the last I am going to bother with. You say that, apparently, there is a great deal of difference of opinion, more or less directed against the activities of the Grain Exchange among the farmers of these Western Provinces; that in your judgment that it would be well to allay any suspicion; that it is better that the people generally should be more familiar with what actually takes place within the walls of the Grain Exchange, and thus have confidence restored, if confidence is lost, do I understand you to so express yourself that way, have I interpreted your evidence aright? A.—I think that anything which can be done to allay suspicion of that kind is good. I did state that I thought you would have to remove some people as well as bring out some facts.

Q.—I was just going to follow it up with that question, assuming in the first place that that is right, then you say that it would not be possible to allay all suspicion because you would always have some agitators? A.—Probably.

Q.—And that is your view? A.—Yes.

Q.—And do I understand you then, that because there would always be some agitators, that you would have to do away with that, therefore, no effort could be made along that line? A.—No, no.

Q.—No? A.—I might say, sir, the thought has occurred to me, the Chairman asked me if I had any suggestion to make as to what might be done to allay that suspicion and that suspicion, not only suspicion, that unrest, that exists, and if I might go back a little again and refer to Wheat Board times, that unrest was just as bad then; that exists, perhaps, largely because of the low price of wheat, and I have thought it is the result, a good deal of it is the result, I do not say all, but a good deal of it is the result of a definite specific campaign throughout this country, which did not start last fall, which did not start in the fall of 1929, but which started before that, the campaign being that you must put this Grain Exchange out of business and this futures market out of business.

Q.—You are getting away now—— A.—No, excuse me, sir, I want to state the fact which I think has a very definite bearing, we are talking about suspicions and agitations, and I have been asked the question, and I would like to answer it, it has a very definite bearing. Now, you have this open market method, the futures market, it is there, it has been in existence a long time, it produces certain results, as a member of the Winnipeg Grain Exchange, and as a believer in the benefits of futures, the trading in futures, benefits in the way of getting a better price for Canadian wheat, as such an individual I would welcome, I would whole-heartedly welcome, a most complete investigation into that machinery, at the same time investigating the other machinery which says that the futures market should be done away with, and this one hundred per cent Pool and direct from producer to consumer will get us more money. As an individual member of the Exchange I would welcome an investigation into the operation by competent people of those two methods of marketing for the several years past and let the issue be determined and published and broadcast to the farmers of these three provinces, and, in my opinion, that might do a good deal to allay a lot of the suspicions or whatever you may call it.

Q.—No, you are getting away from the point which I had in mind, you are getting into the dispute between the Pool and the Grain Trade? A.—No, I do not want to get into that dispute.

Q.—I didn't want to get into that either, and do not intend to get into it, what I did want to deal with is this question of suspicion which has not been confined to this year or last year or the year before, or since the Pool came into existence, but it has apparently existed for a number of years, and the question that was asked whether or not the interests of the men who operate in the Grain Exchange, as well as in the interests of the farmers of the West, whether or not the coming together, some method, some system adopted, whereby the light of day would be let in as far as it was legitimate for business purposes, the light of day would be let in, whether or not that would not be more advantageous than the present system of suspicion, and I understood you to say yes to that? A.—I am suggesting now the way to do it, sir.

Q.—Yes, we, perhaps, can find a way to do it if you will just admit the possibility of it; then, the question is, would you say that that should not be done just because there may still exist certain men whom you characterize as agitators, and who would continue to agitate? A.—No.

Q.—No? Notwithstanding their existence it might be a good thing because then you would have an answer for the agitator, is that not right? A.—Yes.

THE CHAIRMAN—What I understood was that he felt that you would not get one hundred per cent advantage of the step you had taken because you would still have these men in existence.

MR. COMMISSIONER BROWN—Yes, but you would have a good answer for him too, he couldn't get very far away with his agitation.

WITNESS—Oh, yes, he could, yes, he could, you have to attend to your business and you cannot spend all your life catching up with some of these people.

By the Chairman:

Q.—That prompts me to this question: supposing that there was a farmers' representative appointed by them and whom they trusted and who was allowed, while being sworn to secrecy of individual details, yet being allowed to live in the Holy of Holies of the Grain Exchange and to know what happened and have the power to represent to some on that committee or to some independent body anything which he thought was not playing the game, do you think the existence of such a person in that position would mollify the farmer's mind or put his mind at rest? A.—I think, sir, you have had that very thing in existence since 1912, let me explain what I mean in this way. Since before 1912, you had the Grain Growers' Grain Company, members of the Winnipeg Grain Exchange, using its facilities, knowing everything which was going on, you had the Saskatchewan Co-operative Elevators started in 1912, members of the Exchange, using its facilities, knowing everything which was going on. The Honorable George Langley, who, I see, from the papers, appeared before you at Regina yesterday, was a member, and the vice-president of that organization, and during the period that he was vice-president of that organization I do not think, and the records will show it, I do not think he ever appeared before the Council of the Exchange or asked to appear before the Council of the Exchange and suggest there were any abuses or things which should be changed. Since 1923 the Gentral Selling Agency of the Pools have been members of the Exchange. They may have done so, but I do not know of their asking the Council of the Exchange to make any changes in the rules or regulations or to do anything to change the machinery which exists, and I submit, sir, that these people, the two original co-operative, farmers' co-operative companies, and these other farmers' organizations, if they had known, and they must have known, because they had been trading, if they are intelligent, and they are, they must have known if there were any abuses or things wrong, and they did not take them up with the ruling body of the institution, then, sir, I would consider that they had been derelict in their duty to the people which they represented.

Q.—You think they had a direct responsibility to the farmer for bringing to light any abuses which existed? A.—Yes.

Q.—In the sense in which I suggest? A.—Yes.

Q.—That is another bright idea gone west then? A.—I would suggest, Mr. Chairman, that if it is you can very easily spare a lot more of them, from what I have seen and read.

THE CHAIRMAN—Counsel.

By Mr. Sweatman:

Q.—Mr. Murray, just one point, there has been a good deal of evidence given here on behalf of farmers as to the effect of what they call gambling in futures, speculation in futures, would it be possible to have a futures market without the speculative end of it, I mean to confine it to handlers of grain, which is millers and so on, and to have a liquid market? A.—No, sir, I do not think so.

Q.—You do not think that is practicable? A.—No.

MILTON S. WARD (called).

THE CHAIRMAN—Before the last witness gives evidence, we are very anxious that every shade of opinion shall be heard freely here without any hindrance at all, and I am going to invite any farmer or other person who has ideas on this subject and who wants to make his point of view known to come up here and if he says he does not care for the ordeal of cross-examination he will be free to state his views without undergoing cross-examination, providing two things: first, that his point of view is something we have not heard yet, and secondly, that he makes no accusations against the Pool or the Grain Exchange as such, of which he would be entitled to be cross-examined, but if any farmer feels, or any other person, feels that he has a point of view to express, not already brought before us, he is at liberty to come up here and say it subject to those two conditions.

By the Chairman:

Q.—Your name? A.—Milton S. Ward.

Q.—Your occupation? A.—Farmer.

Q.—How long? A.—Since 1906, twenty-four years.

Q.—Now, Mr. Ward, you know the question we are addressing our minds to, the influence of dealing in futures upon the price received by the farmer; now, will you tell us in your own words what you think of it? A.—I have not got a great deal to say about this, but I would like to make a few remarks referring to some of the statements which were made here this afternoon in regard to hedging grain, and I would just like to refer to one item which Mr. Murray mentioned, the last speaker here. Being a member of the United Grain Growers, I would like to call your attention to page 6 of the annual report, where they state there that they did not hedge all their grain. Now, if that is correct, according to the statement that Mr. Murray has just given us, he lost considerable money

to the United Grain Growers by not hedging it, which he claims is of such an advantage to the consumer or to the producer rather.

By Mr. Pitblado:

Q.—What year is that, you know Mr. Murray has gone out? A.—He was with the United Grain Growers when this report came out.

Q.—What year is this? A.—That is 1930.

By the Chairman:

Q.—What year does it refer to? A.—It is referring to the annual statement of 1930 of the United Grain Growers.

Q.—Had Mr. Murray anything to do with the United Grain Growers during that year?

MR. PITELADO—I do not know, I have sent out for him.

MR. COMMISSIONER BROWN—I suppose he would have for part of that year only.

MR. PITBLADO—I do not know.

By the Chairman:

Q.—It is only for a part of the year? A.—Yes, he would be for part of the year, but during his services there there were no doubts in my own mind that all the grain which they handled was not hedged when it was bought, during his services, and he was sales manager, I understand.

MR. COMMISSIONER BROWN—I suppose the inference would be that they should have hedged, that is all you can get out of that, they made a mistake.

By the Chairman:

Q.—Your point was that he was a whole-hearted supporter of the hedging system and you seem to detect a lapse in his own conduct? A.—He failed to hedge when he claimed he should have hedged.

Q.—Well, will you go on? A.—Another item, too, which I would like to refer to, which appeared in the "Saskatchewan Farmer," I will just read; this is an advertisement, and I will read it to you, an advertisement inserted on the 1st of September in the "Saskatchewan Farmer": "Grain Merchants, Winnipeg. Ship your grain to McBean Brothers, crop conditions the world over——"

Q.—We have had this before, we have had it on the minutes ever so many times, we know that, you need not read it, what inference will you draw from it? A.—I want to draw the inference from this that where the grain brokers who are working on a commission basis put out an advertisement like this which will influence the farmers or people to buy, and they further state in their opinion that the grain will sell as high as $2.25 a bushel for wheat, and oats $1.25, barley, rather, $1.25, and oats 95c, I think there is a fair example of influencing the wheat growers to the Exchanges, that there is a possibility of making money in the futures buying.

By Mr. Commisioner Evans:

Q.—Is that the only inference from that that you have? A.—It is the only inference I have here, I have noticed the ad. at different times, different ads.

Q.—You have not got any record of what the Pool put out, have you? A.—No, I am not prepared to give that.

MR. COMMISSIONER BROWN—You are not suggesting that McBean Brothers attempted to mislead the public, that is that they knew differently?

THE CHAIRMAN—They wanted the public to join in their enthusiasm?

WITNESS—Yes, as the speaker stated this afternnoon, if the farmers would pay someone to head the intelligence, to do their own business for them, it might be profitable to them, but if this is the profit you would get by using other judgments I think the farmers are capable of handling their own grain as well as some of the grain merchants.

By Mr. Commisioner Evans:

Q.—McBean Brothers were not the only people who made a mistake at that time? A.—Quite true.

THE CHAIRMAN—Lots of farmers have, some of them made it on their own unaided judgment?

MR. COMMISSIONER BROWN—Yes, and a great many members of the trade too.

By Mr. Commisioner Evans:

Q.—Did you hold your own wheat that year? A.—My wheat goes to the Pool.

Q.—How did the Pool come out? A.—Well, it came out about like the rest of them.

By the Chairman:

Q.—What is your next point, Mr. Ward? A.—There is just one more point I would like to deal with and that was in February, 1925, and in my opinion that the situation in the market there, it had a range from $2.19 to a drop of $1.36, and the reaction there was going back up to somewhere in the neibhborhood of $1.80 to $1.86, and the carryover with which you people are as much acquainted as I am, the point I would like to make there is why that price fluctuated during that period.

Q.—That was when? A.—February, 1925.

Q.—Do you think that was due to the futures market? A.—In my opinion, it was due to the futures market.

Q.—Couldn't it have been due to something in Liverpool? A.—Possibly.

By Mr. Commisioner Evans:

Q.—That was in February, 1925? A.—Yes.

By Mr. Commissioner Brown:

Q.—Did that fluctuation take place entirely within the month? A.—Yes.

MR. COMMISSIONER EVANS—Here is the Liverpool price line for April (indicating chart).

By the Chairman:

Q.—Do you think the price at Liverpool is influenced by what happens in Winnipeg? A.—I would think possibly the Winnipeg works in sympathy with Liverpool.

Q.—Which is the cause, and which is the effect? A.—I said something that happens.

Q.—We have never heard it said here that Winnipeg can do what it likes with Liverpool. I mean that is bad news for me. Have you any other examples besides the 1925 case? A.—No, I haven't got any here.

By Mr. Pitblado:

Q.—I would just like to ask one question. You are Mr. Ward? A.—Yes, sir.

Q.—You have an idea that in some way or other the traders in Winnipeg and the traders in Liverpool work together to manipulate the market? A.—Yes.

Q.—You have that idea? A.—I think I have my own feeling that there is something wrong there, that should not exist.

Q.—I mean, that is in your mind? A.—Yes.

Q.—That through some sort of arrangement or understanding or combination Liverpool traders and the Winnipeg Grain Exchange traders work together to the disadvantage of the farmer, isn't that your idea? A.—The Grain Exchanges work together for their own advantage, not for the advantage of the farmer.

Q.—That is what I mean, they work for their own advantage, and that is your mind throughout? A.—Yes, absolutely.

Q.—And that is in the minds of a number of farmers, Mr. Ward, is that true? A.—Quite true.

Q.—And you heard Mr. Murray talking about people speaking throughout the country. Are there not speakers who go throughout the country and make that suggestion to the farmers? A.—I am not prepared to say what speakers do, or do not do.

Q.—Have you heard any? A.—Oh, I am prepared to say that I have reasons of my own for believing that the Winnipeg Grain Exchange is not there for the interests of the grower.

Q.—That is not the point I am coming to. We are getting back to what you said, because I caught it, that there is some sort of arrangement, or understanding, between Liverpool and Winnipeg Grain Exchanges. I am not suggesting that the Winnipeg Grain Exchange would be there unless they were making money. They are not there for their health. But I am coming back to this point, have you heard speakers throughout the country at any time making this same suggestion that you make, that there is some kind of an understanding, or arrangement, or combination between Liverpool traders and the Winnipeg Grain Exchange traders? A.—I have never been at a meeting where anyone has made that assertion.

Q.—You haven't heard it at a meeting? A.—No.

Q.—You have never suggested that at a meeting of your farmers? A.—I have never suggested it myself.

Q.—But it is in your mind, and the minds of some other farmers that you know? A.—Yes, many of them.

By the Chairman:

Q.—Referring to Liverpool, I feel it is my duty to ask one or two questions. I don't know how it happens. Could you tell me how a concerted arrangement could be worked between the Winnipeg and Liverpool Exchanges? What would be the machinery for doing it? Would they have a committee on each side and say: now, we are going to do the poor Alberta farmers in? A.—I wouldn't like to put it in that form of words, but in my opinion the Winnipeg Grain Exchange is there to make money, and the manipulation may be brought about by the difference of opinion of exchange across the water, and may be very profitable to the grain trade, and for that reason, in my own opinion, there is a manipulation of markets, whether it is bears or bulls that cause it, or both, that there is a manipulation between the Exchanges which should not exist, and is a disadvantage to the grower. I have many reasons for stating that, following the grain trade for the last twenty-five years. I believe that the grain trade has driven the farmers into forming their own organization to handle their own grain, and in my opinion, that is the proper way to handle it, and do away with the Grain Exchange entirely. If we have a system of marketing our own production let us market it through our own system, and not through the Grain Exchange.

Q.—Would you abolish the Exchange at Liverpool, too? A.—That is a different matter. As far as I am concerned, if the people over there wish to use an Exchange for buying and selling their product that would be——

Q.—I just want to see how it would be possible—I am speaking slowly because it is a new idea to me—to make a concerted arrangement with Winnipeg. How would they go about it? There are lots of people in Liverpool, as there are in Winnipeg dealing in wheat. To do this it must be done by some collective scheme. How would they set about it? A.—In my opinion the grain here should be sold direct to the millers——

Q.—Yes, but coming back to my question. I know that is your feeling, and I want to know how the Liverpool people do in fact make a kind of conspiracy with Winnipeg to get this price in this way, and how they manage to dodge Chicago? A.—I am not prepared to say how they do it.

Q.—You feel they do it, but you don't know how? A.—I don't know how.

Q.—I can't conceive how they could do it, except through some definite agent or committee all acting alike. I find in Liverpool, as in Winnipeg, that the people there are made up of people who think quite differently, some acting one way and some another according to their information and judgment. I don't see any evidence of a concerted action on either part, and I want to see how it could possibly be done? A.—Well, my opinion is there are many things done. Take this example of February, 1925, the world's carryover of wheat, and why the fluctuation should be as great as it was, ranging from $2.19 as low as $1.36 and then go right back up again.

By Mr. Commissioner Evans:

Q.—Was there much carry-over?

By the Chairman:

Q.—Do you think a direct contact between the producers and the consumers without any kind of help in between is the way to avoid fluctuation? A.—I think it would be the proper way to market it.

Q.—Do you think it would avoid fluctuation? A.—It may not avoid it all, but it certainly would not call for a fluctuation of $1.00 a bushel. It may be a few cents one way or another, according as the world's supply increases or decreases.

Q.—I would like to see some facts about some other commodities where the intermediaries are few, to see whether the fluctuations are large or small? A.—There has not been much fluctuation outside of critical times.

Q.—I want to look at this question of intermediary making fluctuation, by looking at commodities in which there are no intermediaries, and see how they fluctuated. Have you tested any of those? A.—The only ones I have an opportunity to test are the articles I have to buy and use on my own farm, and I find the fluctuation in machinery I use does not vary to any extent. It does not vary, it always goes up.

Q.—That is not a primary product, is it? A.—It is primary to the growing of grain.

Q.—But it is not a thing dependent upon harvest or forecasts? A.—No.

Q.—A manufactured product of that kind is not in the same position. I am speaking of things where men have to look forward and see what his new supply is going to be, a commodity in which there are no futures. You can't give us an illustration. I don't want to worry you, I am only asking for information as to whether this theory of yours can be borne out by testing it in some other commodity. A.—I could not give you an instance off hand.

Q.—I am sorry you have got this feeling about Liverpool, however, we will do our best with them.

By Mr. Commissioner Evans:

Q.—You talk about the big supply in 1924-1925. Do you happen to know that is the smallest world crop of wheat we have had in ten years? A.—How did the surplus begin to pile up?

Q.—That was a good deal later. That is the smallest world crop in ten years, so it is only suggestion, and the figures like that are available, wouldn't it be a good idea to study the facts in connection with some of these things and keep in touch with them?

THE CHAIRMAN—That is all. Thank you very much. Are there any others on your list, Mr. Sweatman?

MR. SWEATMAN—I haven't anything further.

THE CHAIRMAN—Are there any gentlemen here, farmers or otherwise, who have a point of view to express.

F. F. McNEIL (called).

By the Chairman:

Q.—What is your occupation? A.—Farmer.

Q.—You are at liberty to make statements without cross examination, provided you deal with matters we haven't had before us, and also that you make no actual charges that the people who have the right to cross examine you on might like to cross examine you.

Q.—What is your opinion about this subject? A.—I am not acquainted with the full proceedings of the Commission.

Q.—I will stop you when I think it proper. A.—I think as a farmer that our crop should not be sold two or three times over I would suggest that for one thing the Winnipeg Grain Exchange be forced to keep records and another that only owners of wheat can sell wheat and that it should be made illegal for a man to sell something he does not own. That is the only two suggestions I have.

THE CHAIRMAN—All right, thank you. Anyone else?

E. RANDALL (called).

By the Chairman:

Q.—What is your occupation? A.—Farmer.

Q.—You know the conditions now? A.—Yes.

Q.—Something that has not been expressly stated before and something that does not make a charge against any person or anybody. Now what is your answer to the main problem before us? A.—I have heard a good many people give their evidence here, Pool people, grain people, and one thing and another and I do not know, I am an independent farmer. I do not belong to any Pool. It looks to me like a lot of this evidence is given by somebody trying to enact something. I find out by holding your grain on the farm that probably, when at this time of the year, it is at a premium right now, of three or four cents a bushel right now, that you can get cash for. I have been advised a good many times to sell my grain and take an option. But most any time I held my grain I could get three to four cents and sometimes ten cents a bushel premium and that is one of the things I aim for.

By Mr. Commissioner Evans:

Q.—Spot premium is what you are meaning? A.—Yes.

By the Chairman:

Q.—Your experience is holding your grain has paid you? A.—Yes.

Q.—You have nothing to do with futures? A.—I have dealt one or twice in futures. I have been induced to gamble a little bit but I lost money. I know many other farmers who went in the option market and lost plenty. I think when a car of grain starts out until it reaches its original destination it should be on its way to wherever it is going to be sold. I think where the Pool fell down they got in the elevator business.

Q.—You must not say much about the Pool or you will be cross-examined about it. A.—If you get your grain down to Winnipeg and suppose there is a premium crops up at Vancouver you would have to get your grain back from Winnipeg to Vancouver in order to get that premium. That is what I say, whenever cars are started they ought to be started in the direction where they are going to be sold. And with regard to elevators. The thing is to keep the elevators cleared and pushing the grain forward, clearing the country elevators so as to get that business and create more business. That grain has probably gone to the wrong destination. Over here in the Orient a market crops up and a 10c a bushel premium.

Q.—Does this grain dance about all over the continent? A.—No, but when I say the grain leaves a farm it should not be held over.

Q.—You ought to know exactly where it is going from here? A.—I think so. When you had it at Winnipeg and a premium crops up in Alberta, supposing we are getting dry winds from Calgary to Winnipeg and things do not look so good and maybe some farmers may be in the market for seed next spring, and I have that grain kept on the farm, but if it is not sold it should keep in its natural direction where it is going to be ground for flour and I think that is the right thing to do.

Q.—I won't cross-examine you on that. But I think it is very intelligent grain. A.—I think it is wrong to pay money on grain that has not been sold. That is where the mistake is. I think if any group of farmers that want to sell their grain they should be paid as they sell their grain from month to month and not advance money for a commodity that is not sold. I think that is where the mistake is, that any group is advancing money on a commodity that is not sold. I think the non-Pool farmer is just as entitled to Government support as the other farmer is entitled to it. I think that is a mistake that has been made when any group advances money on articles that is not sold.

CHARLES HUSER (called).

By the Chairman:

Q.—You are a farmer? A.—Yes, sir.

Q.—How long have you been farming? A.—Twenty years.

Q.—Now, Mr. Huser, something new and something not provocative? A.—My story will be short and it will be something new. I want you to know I hold no ill-feeling towards the Pool nor towards any grain firm. I came out here, I was born in Germany and I came away from there because there was too much compulsion altogether. In other words, my folks felt we were labouring under a yoke and I came to the United States of America. I stayed there for twenty years and I came up here. The Canadian Government came down there and invited me to come up here to raise wheat. All right, I sold my wheat through the old grain companies and they treated me fine. The Alberta Pacific handled my grain for about ten years and then the U. G. G. handled it for five or six and I thought they were making too much money and so I built an elevator of my own. I have an elevator up at Crossfield and I am proud of it, although it does not pay me very much. The idea I want to put over to you, gentlemen, is this: I have been a member of the U. F. A. for 15 or 20 years, but somehow or other I did not see fit to join the Pool, and I do not want anyone to compel me to join that Pool, either. In other words, I leave them alone and I sure want them to leave me alone, too. If I have brains enough to invest fifteen or twenty thousand dollars putting in a crop I have a little brains left to sell it.

THE CHAIRMAN—Gentlemen, I think we are through now.

(The sittings adjourned).

Royal Commission on Grain Futures

10.15 a.m., April 21, 1931.
Royal Alexandra Hotel,
WINNIPEG.

THE CHAIRMAN—Mr. Sweatman, you have been in touch with the various witnesses, and would you tell us what procedure you would like us to adopt today.

MR. SWEATMAN—I have got Mr. Ursell here, who put in a statement on special binning, and I won't take a minute with him, and then I propose to call Dr. Duvel, who has come at our request, and it may be possible he may want to be recalled after further evidence is given, but that is a matter for you to decide. He just wanted to reserve that right. Then we have a man named Howard, a scalper, and we have the chairman of the Cash Closing Price Committee.

THE CHAIRMAN—The Commissioner, Chief Justice Brown has a request to make.

MR. COMMISSIONER BROWN—I would like to have you file, Mr. Pitblado, if you would, a copy of the Bylaws and Regulations of the Grain Exchange, for the benefit of each of us.

MR. PITBLADO—Yes.

MR. COMMISSIONER BROWN—And the last official report. Also the blank form of contract that the farmers enter into with a Grain Company when a loan is advanced on his grain, on cash grain.

MR. COMMISSIONER EVANS—Is that within the scope of the inquiry?

MR. COMMISSIONER BROWN—The farmers, contract that is used.

MR. PITBLADO—I can frankly say I don't know that there is any such form at all. I think every company has its own form, but I will try and comply with it. Personally, I do not see what that has got to do with the investigation, but we will be glad to get it.

THE CHAIRMAN—I would like to look at it.

MR. COMMISSIONER BROWN—It may develop that it is of interest.

E. A. URSELL (called).

By Mr. Sweatman:

Q.—What is your position with the Board of Grain Commissioners? A.—Statistician.

Q.—Doctor MacGibbon gave a statement signed by you last week, and we are not quite sure what it meant. We are not quite sure what the figures signify? Would you mind just explaining it. I understand you are going to amend it somewhat slightly?

THE CHAIRMAN—The exhibit number is 23.

By Mr. Sweatman:

Q.—I produce to you Exhibit 23, are they the same as the statement you are presenting this morning? A.—No, there are some corrections in one of the years.

THE CHAIRMAN—We will call this 23 X.

By Mr. Sweatman:

Q.—Just explain that statement in your own way to the chairman? A.—The statement represents a total of the figures furnished by operators of country elevators during the years mentioned, which were compiled, and the quantities of specially binned grain are shown separate on those statements, separate from other special binned grain.

By the Chairman:

Q.—Shall we cancel the original exhibit altogether, or shall we now try and reconcile them? A.—Will you please cancel it.

Q.—We won't bother our heads with it, this superseded it, and we will confine our attention to this new one? A.—Yes.

Q.—Now, let me take a specimen case, the crop year of 1925-1926, specially binned grain by non-pool elevators 19.76%. Would you mind telling us what that grain was? Was it grain put into special bins by the farmers and not sold? A.—I presume not sold until after delivery.

Q.—Not simultaneously, otherwise they wouldn't have specially binned it? A.—No sir.

Q.—Therefore that represents a minimum at the time of delivery of the grain retained by the farmer in his own ownership? A.—No, non-pool elevators.

MR. COMMISSIONER BROWN—You have them both.

Q.—22.4% represents a minimum of the grain crop in that year which remained in the farmers' ownership at the time of delivery to the elevator? A.—That is how I understand it.

Q.—You don't know how long it may have been, two or three days or a week, or a month, during which it remained in the farmers' ownership? A.—I have no record to show that.

Q.—That is the minimum. What part of the succeeding figure of 74.46% or the total of 77.6% might be, although not specially binned, in the farmers' ownership, do you know? A.—We have no record of that.

Q.—So all we get from this table is a minimum, and not a maximum? A.—Yes.

Q.—Would there be any reason why, going back to the minimum, any portion of the 22.4% should be put in special bins and not belonging to the farmer? A.—Not that I know of.

Q.—But the elevator people themselves have always and do desire to keep it separate? A.—They would hardly treat it as specially binned grain.

Q.—You don't think any portion of the 22.4% would belong to the elevator people themselves and be kept separate? A.—We have no record of it.

By Mr. Commissioner Brown:

Q.—Unless it were seed grain or something of that kind. There would be no object in specially binning it if it were the company's own grain? A.—I think not.

By the Chairman:

Q.—Then do you say we would be safe in drawing the lesson from this table that this figure starting with 22.4%, and the next year 27.67%, represents the minimum that was in the farmers' ownership for at least a day after it was put in the elevator? A.—Yes.

By Mr. Sweatman:

Q.—It would be more than a day, it would take the average time to go down to the terminals? A.—Exactly.

Q.—It would be at least the average time it takes wheat to go from the interior to Fort William? A.—Yes.

By the Chairman:

Q.—There is nothing whatever in this table that we can safely deduce as to how long it remained in the farmers' ownership?

MR. SWEATMAN—No.

THE CHAIRMAN—But we do know that figure 22.4% represents the minimum?

MR. SWEATMAN—Yes.

THE CHAIRMAN—I don't know whether anybody can tell us on behalf of the Pool elevators what the figures there represent?

MR. BIGGAR—I understand the statement is not really an indication even of the minimum. My information is that, take for example that first crop here, a good deal of the specially binned grain, and a good deal also of the non-specially binned grain in the non-pool elevator was really Pool wheat and it did not belong to the farmer by whom it was specially binned. It was specially binned not because it belong to them, but because there was no agreement between the operator of the elevator and the farmer for his grain on account of dockage.

By the Chairman:

Q.—So it was specially binned because it was owned by the Pool really?

MR. BIGGAR—Well, it was owned by the Pool, and it was specially binned because there was no agreement at the time between the producer and the elevator operator as to its grade and dockage, not because he owned it.

THE CHAIRMAN—It rather spoils the figure of 22.4% as a minimum owned by the farmer.

MR. BIGGAR—Yes.

THE CHAIRMAN—There might have been quite a considerable amount of it not owned by the farmer specially binned because it was under inquiry from the Pool.

MR. BIGGAR—Exactly.

By the Chairman:

Q.—You wouldn't object to that qualification? A.—We have no record of any such transactions.

Q.—Are all the figures on this table made up in the same way for the respective years? A.—All the way they are.

Q.—All comparable? A.—Yes.

Q.—No break in fractions? A.—No.

By Mr. Sweatman:

Q.—What about platform grain? A.—Platform grain is not included.

Q.—How much would it run? A.—Possibly four or five per cent of the crop.

By the Chairman:

Q.—Four or five per cent. Where does that come in this table? A.—Not at all.

By Mr. Sweatman:

Q.—In addition to this there is about four or five per cent of specially binned platform grain? A.—Yes, not specially binned.

MR. COMMISSIONER BROWN—It doesn't go through the elevator at all.

THE CHAIRMAN—But by hypothesis it ceases to belong to the farmer?

MR. SWEATMAN—No, it does belong to the farmer.

THE CHAIRMAN—At what stage?

MR. SWEATMAN—Until he sells it after putting it into the terminal.

MR. COMMISSIONER EVANS—Or sold on track, or all the way down.

THE CHAIRMAN—That is only four or five per cent.

MR. COMMISSIONER BROWN—I would think that four or five per cent would be a very large estimate for grain that was loaded over the platform.

MR. COMMISSIONER EVANS—Not in the season.

MR. COMMISSIONER BROWN—Yes, in the season.

MR. COMMISSIONER EVANS—I should not think so.

THE CHAIRMAN—At any rate, it is an important qualification of this table that Pool grain goes through non-pool elevators.

MR. SWEATMAN—Yes, sir.

DR. J. W. T. DUVEL (called).

THE CHAIRMAN—Dr. Duvel, we are very much obliged to you for coming all this distance for our help, but you know the inquiry we are engaged in, and we are sure you will be able to help us. Your name has been very prominent on the lips of witnesses, and the Commissioners too.

By the Chairman:

Q.—Dr. Duvel, the line we have been taking is this, we have a single question to answer, though it is much more complex than it looks, and can be split up a good deal, and also touches on a number of allied problems. The question is, "What effect has the system of futures trading upon the price received by the producer." We have been in the habit of letting the witnesses develop it in their own way, and then clarifying it ourselves, and counsel perhaps adding a few questions. If that procedure would be of convenience to you to tell us what you think about our question, or whether you would prefer we would put our own concrete problems and difficulties before you, whichever you like. A.—It would seem to me probably you might like to know somewhat about how we handle our grain futures supervision down in the States.

Q.—I think we will leave you to tell us all the surrounding material like that in your own way first. A.—I have brought with me very hurriedly, some material in that connection, and it will not be very well connected. At any time the Commission wants to ask any questions I will be glad to have you do so. I thought it might be well for the records to indicate first something of the origin of futures trading in the States and of their legislation.

Q.—Yes. A.—"For many years Congress made attempts to enact laws to control or to prohibit trading in futures. The first bill was introduced in 1884. It was nearly 40 years before such a measure was passed. This was the Futures Trading Act, of August 24, 1921. This Act was based on the taxing clause of the Constitution. Certain regulatory sections were immediately contested in the courts through a suit brought by five members of the Chicago Board of Trade. On May, 1922, the Supreme Court of the United States handed down a decision holding the regulatory provisions of the Act to be unconstitutional.

"A new bill was drafted along the same lines but based on the commerce clause of the constitution. This bill, known under the short title of 'The Grain Futures Act' became a law September 21, 1922. The constitutionality of the Act was contested by the Chicago Board of Trade. April 16, 1923, the U.S. Supreme Court handed down a sweeping decision sustaining the Constitutionality of the Act. In the decision the court declared that,

" 'The Board of Trade is engaged in a business affected with a public national interest and is subject to national regulation as such. Congress may, therefore, reasonably limit the rules governing its conduct with a view to preventing abuses and securing freedom from undue discrimination in its operations.' The decision further states that 'manipulation of grain futures for speculative profit, though not carried on to the extent of a corner or complete monopoly, exert a vicious influence and produce abnormal and disturbing temporary fluctuations of prices that are not responsive to actual supply and demand, and discourage not only this justifiable hedging but disturb the normal flow of actual consignments.' "

Congress, in Section 3, of the Grain Futures Act, clearly set forth the reasons for legislation of this character. Section 3 reads in part as follows:—

"That the prices involved in such transactions are generally quoted and disseminated throughout the United States and foreign countries as a basis for determining the prices to the producers and the consumers of grain—and to facilitate the movement in interstate commerce; that the transactions and prices of grain on such boards of trade are susceptible to speculation, manipulation, and control, and sudden or unreasonable fluctuations in the prices thereof frequently occur as a result of such speculation, manipulation, or control, which are detrimental to the producer or the consumer and the persons handling grain in interstate commerce, and that such fluctuations are an obstruction to and a burden upon interstate commerce in grain and the products and by-products thereof and render regulation imperative for the protection of such commerce and the national public interest therein."

I file with the Commission a copy of U.S. Department of Agriculture Miscellaneous Circular No. 10, which contains copies of the Futures Trading Act and the Grain Futures Act, together with both decisions of the U.S. Supreme Court, and the Rules and Regulations pertaining to the Grain Futures Act under which we are now operating.

By Mr. Commissioner Brown:

Q.—Have you got a copy of that Supreme Court decision for us? A.—Yes, I have.

Q.—Can we have a copy filed? A.—Yes, I will file a copy. I will file with the Commission a small pamphlet, Miscellaneous Circular No. 10. I will file a copy of the Futures Trading Act, copy of the Grain Futures Act, the Supreme Court decision in both instances, and the Rules and Regulations under which we operate.

(Documents above referred to marked EXHIBIT 40.)

Q.—Does that give the complete decision in both cases? A.—The complete decision in both cases.

Q.—You have not got separate copies of that pamphlet, have you? A.—I have another copy.

By Mr. Commissioner Evans:

Q.—You are not submitting that the wording of the Act, or the decision of the Court, is either statistical or economical evidence on the matter? A.—No. It is just merely as a background to show the position that the Courts took in the matter, and in connection with the Supreme Court decision.

By the Chairman:

Q.—Inasmuch as the judicial view is not always the economic view, would you mind telling us whether you had an economist called to adduce views in evidence on these proceedings? A.—Not for the Government, no, sir. I think there were some economists that presented views on behalf of the trade.

Q.—When these actions were taken by the Supreme Court no doubt there was adduced in evidence the views of the economists? A.—Yes, I think there were at that time, but that evidence was not put in by the Government.

Q.—But the Supreme Court did have before them the views of the economists? A.—Yes, sir.

By Mr. Commissioner Brown:

Q.—And I presume, also, information as to what actually had taken place? A.—Well, that was presented in the form of proof.

Q.—Because they seem to have made some findings of fact, from the recital of the decision you have read. The Supreme Court seem to have made some findings of fact, whether they were admitted facts, or whether they were fundamental facts of some tribunal, I don't know. A.—The latter parts from the statute itself, Section 3, of the statute itself, and the Supreme Court decision is based on that same line.

By the Chairman:

Q.—One of our witnesses from the States told us in his evidence that in a recent suit before the Supreme Court evidence was filed by the following twenty-two economists, declaring their belief and so on. Do you know which suit that was? There was a list of twenty-two professors. A.—That was in the second suit on the grain futures.

Q.—October 22nd, Board of Trade of the City of Chicago v. Klein; was that one of the cases, of the ruling cases, you referred to? A.—Yes, that is the grain futures.

Q.—In that case the views of the economists were before the Supreme Court? A.—I think they went to the Supreme Court. I remember seeing this.

By Mr. Commissioner Evans:

Q.—What was the only point decided in that—that that Act was constitutional? A.—Certain sections. The decision of the Supreme Court does not cover all the Sections of the Act. In fact, the constitutionality of all of the Sections was not contested; it was the regulatory Sections.

By the Chairman:

Q.—My only point there: of course, the Supreme Court is legal only, it has not the charge of economics and trade, and the Commission is interested more in the statement filed by those economists. A.—I would be glad to undertake to get them.

Q.—I think I would rather like to see them, if you would get them and send them on to us in Chicago. A.—I might say in that connection, as I remember—it is a good many years since I saw this—that five of those reports were identical, except the signatures.

Q.—Well, that is not disturbing. A.—I mean that their statements with reference to futures trading led us to believe, perhaps, that some of them had been prepared in the same source. I shall be glad to undertake to get those for the Commission and the Commission can draw its own conclusions.

Q.—Probably it was a concensus, they all agreed on it as a final decision.

By Mr. Commissioner Evans:

Q.—It would not necessarily be suspicious if three Commissioners in this case should be able to sign the same document, would it? A.—I don't think this was a question of general combination or agreement.

By the Chairman:

Q.—Well, it might only be a case of very hard work on the part of the whole five of them, rather than no work at all on the part of four. Because it is very much easier for one person to prepare a document and get the other four to sign it, than to arrive at

a considered opinion for five. A.—If it was handled in that way. My understanding is it was not handled in that way.

Q.—However, I think I am sufficient economist to judge what happened. A.—Yes, and I think I can get those copies for you.

Q. —Now, Doctor, will you proceed? A.—Now, I don't know whether the Commission would like to have me discuss briefly what we do under our Grain Futures Act. We have authority under our regulations to call for certain reports. We call for reports from the clearing members, showing the purchases and sales each day in the various futures. They likewise report to us each day the volume of open contracts; that is, the aggregate of long contracts and the aggregate of short contracts for their customers. In addition, they also report to us the position in the market of individual customers, whether it be speculative, hedging, or otherwise, that have an open interest of 500,000 bushels or more, and under the regulations of 1926, we request certain individuals at times to report to us direct their position in the market.

Q.—You can ask individuals? A.—We do, sir. That is done for the reason that a great many traders, through the course of distributing their trade, put their orders in a good many different houses. We likewise find others who distribute those trades in such a way as to keep them under 500,000 bushels, so that they do not have to report. We get all kinds, deal with all kinds of individuals and all kinds of conditions. Sometimes we find accounts split up in the same house into four or five different amounts, but kept under the 500,000 bushels limit.

Q.—Do any of them work through nominees? A.—Not to any extent. Once in a while we find a case like that, but that happens more frequently in smaller accounts. We find considerable of it in small accounts, where they do not want their names to be known for some reason or other, but not, as a rule, in the large accounts, because it is not easy to conceal a deal of a million bushels. When we have an account that is reported to us, for example, that a certain trader has made a trade of a million bushels, if we have any reason to be suspicious, we write to that individual. We had one case once where accounts were split up and we wrote to the individuals, and shortly after the manager of their office came to us and said: "These people cannot answer that correspondence because they don't know they are in the market".

Q.—So they have some friend who was putting them in? A.—In that instance I think it was around 3,000,000 bushels.

Q.—Did they give a blank cheque and attach a request to the firm to act for them? A.—They did not give any request. It was purely a question of book-keeping and the records showed the account for some other trader.

Q.—They used the name without the person's consent? A.—Without the person's consent. That came back to us and they finally admitted it was for their own account.

By Mr. Commissioner Evans:

Q.—Would you call upon individuals in every case, individual clearing firms and then individuals? You do not receive returns from the Clearing House? A.—We receive returns from the Clearing House and those returns come to us the following morning. That is, a trade to-day will come to us by nine o'clock to-morrow morning. So that we know the purchases that have been made and the sales that have been made by futures?

Q.—The Clearing House reports that to you and you call on the individual firms? A. —Members of the Clearing Association.

Q.—As individual members? A.—As individual members, yes.

Q.—And they make separate individual reports to you? A.—Yes, sir. We have in some of our markets, Kansas City, for example, we get a report as to the volume of trade from the standpoint of the aggregate of the open contracts. That information the Clearing House does not have.

Q.—It does not know the aggregate? A.—No, sir, and I do not think the Clearing House of Winnipeg knows the aggregate. I think your Clearing Association in that respect is the same as ours, although I am not positive of that.

Q.—They have the net? A.—They know the net only.

By the Chairman:

Q.—You mean they have the net open position? A.—Yes, they have the net open position, which, of course, may be somewhat near the aggregate, or may have no relation whatever.

Q.—They don't know the aggregate trade, but they know the net results? A.—No, sir. There may be a commission house which may have customers on the long side with an aggregate of a million bushels and they may have customers of open short 2,000,000 bushels. The position of the Clearing House is that there is a million bushels net short.

Q.—They would know the trade of the day? A.—Yes, but on that net position. Another clearing member might have aggregate long for his customers of 8,000,000 bushels, and short on nine, and he, too, is short 1,000,000 bushels with the Clearing House and that record, naturally, we get under the Grain Futures Act. In the United States and in Chicago until 1923, when we started operations, the volume of trade was not known. That was no different, of course, in the case of Winnipeg. It was not known to the Board of Trade, as a Board of Trade itself. These were only first made public, I think, in 1926, or

something like that. That information, so far as information is concerned, with reference to the volume of trade and the aggregate of open committments we make public every day. That information comes to us by about nine o'clock in the morning, and usually about eleven-thirty that is given to the trade, so they know the volume of trade the previous day and the volume of open commitments. As far as volume of trade itself is concerned it is not of a great deal of importance one way or the other, but we take this position, in view of the decision of the Supreme Court, that if there is a market the people have a just right to know something of the volume of the trade; likewise, the traders in the market are entitled to know the aggregate of the open contracts. I might say the aggregate of the open contracts, we discussed that question for three or four years with the members of the Exchanges and they were opposed to giving out information showing the aggregate open contracts.

By the Chairman:

Q.—What were their reasons for that position? A.—Their reasons, fundamentally, were that it was of no interest to the public. Now, the millers, on the other hand, they were very active and they took this position, that it was very valuable information from the standpoint of the hedger, because he knew a little better how to handle his hedges, and they pointed out at the same time that the large speculators practically had that information and that they were entitled to it, as well as the rest of them.

By Mr. Commissioner Evans:

Q.—How would they have it? A.—They would not have it absolutely, of course, but they would know perhaps what the trade is in the various houses and each house would know what they have in their own house. I might say this, that any large commission house that has a representative lot of customers scattered over the country has a pretty good notion of what is going on in the market.

Q.—It was not that there was any lack in the organization in Chicago that some people could find out and some could not? A.—Well, they had no record in Chicago.

Q.—But certain large operators were able to obtain it from some source? A.—Well, our experience was that large operators can usually find out what is going on in the house.

By the Chairman:

Q.—Find it out exactly, or sense the general magnitude? A.—Well, pretty near find it out exactly We find that in some cases members of the commission houses themselves are large speculators and, of course, they know.

By Mr. Commissioner Evans:

Q.—You are speaking only of the particular commission house through which they trade; they know the volume of that house? A.—They would only know, of course, that house.

By the Chairman:

Q.—They would not know the figures of the whole exchange? A.—No.

Q.—May I ask a question about the result of this action? A.—I dare say if we changed those records now, the trade would immediately ask to have them.

Q.—One finds in other spheres of life that people make a tremendous agitation to get particular information and figures and then, when it is published, they divide into two classes: those who completely misuse it, and those who, like a kid with a new toy, have no further use for it. A.—That is true, yes.

Q.—Well, what has happened with regard to the publication of these figures? Are they misused to any extent? A.—I don't think there is misuse.

Q.—Or false inferences drawn? A.—They are just beginning, I might say, to understand the importance of the figures on open contracts. It is the figures on open contracts that tell really what is taking place in the market. We find frequently gossip, or used to find a great deal of it, that certain traders, for example, were liquidating their holdings. That has a very bearish influence, especially if with reference to the position of a large trader, and if the public gets the general impression that experts see nothing in the market, they always have lots of followers and they start selling out their holdings. We frequently, three or four years ago, found statements of that kind quite common. Yet when the information came to us on the following day it showed that it was not a question of liquidation that was depressing the price, it was a question of short selling, and the open figures will show whether it was short selling or liquidation, whether it is increase in open interest, or decrease in open interest.

Q.—If there was any decrease in price the following day, would you attribute it to one or other of those causes? A.—Well, of course, we would have the volume of trade and also the trade of the larger speculators, or larger commission houses, so that we could check back. For example, you have an instance where you have an increase of 2,000,000 bushels in the aggregate open contracts. Now that increase can only come in in one or two ways. You must have some new buyer. If it is a question, going back for a minute —if it is a question of the longs liquidating and new longs coming in to take their place, you have no change in your open interests, because one offsets the other. On the other hand, if the longs are liquidating and there is some new short selling, then you should have a decrease in your open interests.

By Mr. Commissioner Evans:

Q.—But take the case of good rains in your winter wheat area in a critical time and prices going down the following day. My point is, do you take other factors into account except your aggregate? A.—Yes. We keep close check all the time on the question of the gossip and the market information that influences price movements, and that character of market news.

Q.—Have you reached the stage of wisdom in which you can correctly apportion the results among all the variety of factors that would affect the market? A.—No, sir, we have not. There are too many of those.

Q.—Would you presume then to say that certain effects on price are directly due to these changes in the futures market? A.—Not necessarily in that way. You may have, of course, heavy selling on some particular day and there may be a just reason back of it.

Q.—Do you always take that into account, or do you just attribute the results to the fact that they were selling? A.—Well, we tried to cover all those factors.

By the Chairman:

Q.—What is your statistical technique for deciding which is the cause and which is the effect? Two things happen together and you say because there is a certain volume of trade the price has gone to a certain figure. Now, could I not say that because the price has gone to a certain figure that is the cause of the volume of trade? A.—I don't think it is possible to answer that in all cases. For example, in the present situation if you had an abundant rain in Western Canada and our own spring wheat belt, that would no doubt be followed by selling. The rains in that case would probably be the cause.

Q.—It goes to the region of intention. If the price alters, and because the price alters, people accommodate their trade to that, that is the natural commercial operation. If, however, they are doing a quantity of trading with a view of making the price a certain figure, that is quite a different order, both statistically and from the point of view of intention? A.—Well, we apparently have them both.

Q.—Have you ever followed the statistical difficulties? You have worked out a very excellent, elaborate co-efficient of correlation when you split up your trade. Have you ever worked on this question of causation by lagging one or other source behind the other? A.—We have done some practical work in that line.

Q.—Has it given you any results? A.—We have not been able to draw any definite conclusion from that. There are so many factors that enter into it and the futures market is very sensitive to every little factor, it may be real or imaginary.

Q.—As a statistician, I know in other fields of labor how difficult it is to say which is the cause and which is the effect. In two sources that are moving with beautiful regularity together the mere assumption that because a certain amount of trade is being entered into and has changed the price, as if it was of intention, is a little risky; statistically, I mean? A.—Yes, I think that is true. I will have to agree with that.

Q.—You would agree, also, with this further statistical difficulty; if you lag one or two sources and find you get your highest correlation when you lag a little behind the price, even that would not prove causation, because sometimes the cause of a thing, in its objective, comes afterwards? A.—Yes, I think that would be true.

Q.—I will give you an illustration. Take the correlation between alteration in a bank rate and the prices of gilt edged securities. Well now, if you lag these two things, you may find that you have got a wrong cause, because the alteration of the bank rate is foreseen and the actual alterations does not come until after the effect of it. So, if you were to trust to that statistical lagging you would get a wrong view of which was the cause and which was the effect. Now, I should imagine that in the case of this trading and the price that results from it, they are too simultaneous for that? A.—In the majority of instances they come so close together——

Q.—That no lagging there would help us? A.—The method of getting the news comes so quickly and the market is so sensitive that it is extremely difficult. And, of course, there are rapid movements within the day and these are factors which we have not been able to go into. That requires careful analysis of all the transactions through the day and the bulk of trade at various times during the day.

Q.—You cannot get a weighted average of the price through the day? A.—It would be possible to get it, but it would mean checking all the records of all the commission houses, which is too big a burden.

Q.—Coming back to this question of lagging, in order to see whether you have any slant on cause and effect, have you indicated in any of your lagging series the highest co-efficient within the direct series? A.—No, I don't think we have. We have really not done enough work along that particular line to really justify coming to any very definite conclusion as to just what would be shown in that connection.

Q.—I did feel that, speaking from the purely statistical point of view, that there was a tendency for you all who handle these figures to jump to the conclusion too quickly that because a certain volume alters, price alters with it; that the alteration of the volume brought about the change in price, rather than the change in price brought about the alteration in volume. I know they are related when we go into the intent of what people are trying to do, whether there is a serious effort to lower prices, or whether they are victims of circumstances. It is a very open question. A.—It is. We have all kinds. Let me give you an illustration. I think it was three or four years ago—maybe a little

longer than that, it was when I was in Chicago myself—there appeared on the news ticker, appeared in the press, and over the private wires everywhere, that a certain individual trader who had a big following in the general public, saw nothing absolutely in the market, no chance for the market to advance. Ye that same day he bought a million bushels of wheat. That is the kind of thing that happens right along. In other words, he was not ready to have the market advance. He gave out the impression, knowing he had a following, to hold prices down until he accumulated. After he had accummulated three or four million bushels he was very bullish.

By Mr. Commissioner Evans:

Q.—Are you satisfied that he gave out the information? A.—We have this difficulty, when we came to adjust that account we did not know just where it started, except that: "So and so told me", and: "Somebody else told somebody else", so it is very difficult to get that kind of information.

Q.—If there were a market in which that kind of information or gossip does not go out at all, that particular danger would not exist? A.—Well, that is true, but you do have that kind of information. May I give you another illustration.

Let me give you another illustration you might be interested in. We have one instance where a certain trader was long through one house, and it was generally known he was in a long position, everybody knew in the street and that is no great secret, and as a general rule there was another trader working in opposition to him, but traded through another house, who was on the other side of the market. He took from House B, the one off the short side of the market, and sold a million bushels through house A, where the long trader normally traded. The gossip was the long trader was liquidating his holdings and the market declined two cents. At the same time the long trader did not sell a bushel, but the man who was on the short side put some over in house A, so it would be executed by that broker that normally operated for the long trader. That is the gossip that such and such a trader was liquidating his own holdings. Who started the gossip is another question, but the price broke two cents that day.

By Mr. Commissioner Evans:

Q.—Take that particular time, or any other, do you take the Liverpool and Winnipeg prices into account? Had Liverpool declined two cents before that happened in Chicago? Or did you attribute any change in Chicago to the accounts between your speculators? A.—I couldn't answer what Liverpool did that day, just off hand, but those are factors, if Liverpool market is down Chicago is likely to follow.

Q.—You have never plotted Liverpool as against Chicago and Winnipeg to see how constant the relationship may be? A.—We keep those plotted all the time, Chicago and Liverpool, and sometimes Chicago follows Liverpool, and sometimes Liverpool follows Chicago.

By the Chairman:

Q.—Which gains? A.—I daresay in an active market Liverpool follows Chicago most of the time.

Q.—The people in Chicago do not feel they have a set of machiavellian minds in Liverpool working these daily fluctuations against them? A.—No, I don't think so. Of course, there is a big difference in the volume of trading of Chicago and Liverpool. The volume of trading in Liverpool is much less than it is in Chicago. I don't have the figures with me, but I saw those figures published recently by Broomhall. That is, the volume of speculative trading of Liverpool is much less than it is in Chicago, but usually when you get in the Board of Trade in Chicago that is the first question everyone asks in the morning, "What did Liverpool do?" If Liverpool has declined rather sharply Chicago is almost sure to follow.

By Mr. Commissioner Evans:

Q.—No matter how your aggregate of open accounts may be? A.—Oh, yes, I think that is true.

By the Chairman:

Q.—I take it the position for the day would be a blending of the two factors, your own domestic and open account positions, and the Liverpool position? A.—Yes. Of course, you have Liverpool going up one day, and Chicago down, and Chicago up the next day and Liverpool down.

By Mr. Commissioner Evans:

Q.—In your May futures? A.—No, in our July, and Liverpool, May and July.

By the Chairman:

Q.—Doctor, what we are discussing now, are all of the order of minor oscillations of price to a general trend. They are not the big commanding factors of the world, they are oscillations about it? A.—Yes, around the general trend.

Q.—Your attention tends to be fixed very much on these minor oscillations? A.—On the minor oscillations, and on the larger movements. When I think of minor oscillations I am thinking really from the daily fluctuations.

Q.—But there are deep-set forces which are settling the larger fluctuations of price? A.—Yes.

Q.—And what these things as between the different groups of speculators and so on

on your market are doing, they are merely making a series of rapid minor oscillations about that major trend? A.—I think that is true.

By Mr. Commissioner Brown:

Q.—Would you say these minor oscillations are very material in that they may affect the price to the producer for the moment seriously? A.—Oh, yes, I think that is true.

By the Chairman:

Q.—But, Dr. Duvel, comparing the kind of curve of price that you may get if the whole of the world were off futures and had no futures, there you would get something of a major character, against which these minor fluctuations of a particular market with futures is relatively small? A.—Yes, I think that is true.

Q.—We want to keep our sense of perspective in this inquiry. You have to go about daily with a microscope. We are thinking not only of the daily oscillations of this highly sensitive machine, we are also thinking of the longish period, of broad-banded price, and the order of the two magnitudes is quite different. A.—They are very different in that case. But, in our States we have reached this conclusion very definitely in our own minds, and we may or may not be right, that these enormous trading operations are detrimental to the best operations of the futures market.

Q.—That is to say, the futures market, whatever big benefit it may give to the world, has certain tricks and defects of its own? A.—Yes.

Q.—Which may partly offset those advantages? A.—Yes, that is the suggestion.

By Mr. Commissioner Evans:

Q.—Have you any way of determining in connection with a large operation whether the initiative is being taken by that operator, or whether he is merely in a receptive position? That is, even taking a short line, there may be a whole series of holders who were long in the market, perhaps small holders, who for one reason or another lose confidence in the market, perhaps because of the spring rains, which you referred to, and which we hope will come here, and they might offer to sell, a few of them, and someone might buy. He might wait for the next offer to sell, which might come lower. The initiative in that decline might be taken by those who were long all the time, and yet a very extensive short interest might be acquired as the result of it? Would you in your statistics then attribute that decline in price to short selling? Or, I guess I have the prices twisted—but you can see what I mean, the initiative might be taken by one side or the other? A.—That is true, whichever side takes the initiative that is the direction in which the price is going to move. If the buyers began the initiative the price will move up; if the sellers took the initiative the price will move down.

Q.—But without buyers taking the initiative it might be sellers who take the initiative in selling it at different prices, and the buyers might merely have accepted the offers made? A.—Our experience is this, an ordinary seller, especially a man who sells short in any considerable quantity, generally he wants to sell at the highest price he can, he doesn't sell to undertake to depress price unless he wants to artificially depress it, so he can cover a long short line through the operation of privileges.

Q.—But you do not, as a matter of fact, keep men in the pits to observe whether someone who is selling starts at the even figure, and after a second or two offers ⅛ less, and ⅛ less, and ⅛ less, and takes the initiative, or whether he stands there and waits until someone else makes the move? A.—We do not aim to keep a man in the pit all the time. In fact, he is very seldom in the pit.

Q.—And he couldn't tell if he were there? A.—That is the reason we do not keep him there.

Q.—Then your statistics do not throw any light on who was taking the initiative when either a short or long line was acquired? A.—The records will show that, how the orders were given.

Q.—Would it? The initiatives might be with the opposite party, in any case, might it not?

By the Chairman:

Q.—Isn't this rather like the lady who says yes, when she knows beforehand he is going to ask? A.—Yes, possibly. You have all stages of activity and all kinds. Take the smaller traders who, by the way, generally enter the market on the buying side, they may get to a point where they are going to liquidate it, and we have two differences in that case. On an advancing market you will find some of them liquidating and taking a profit. We always find another group who will liquidate those small holdings on a declining market, generally when they get to the point where their margin is exhausted, and where they have to. That is the small trader. Let me give you an illustration.

I think it was in 1926, in the July futures. We made a check up on the July futures in the last day of the month, and some auditors came back to me and told me that one July trade had stood in the market since October, practically from the beginning of the future. Once he had an opportunity to take a 45 cent profit and did not take it. The market declined, and his profit was about all gone. Then it advanced, and then he had an opportunity to take a profit of 30 cents, and did not take it. It was only a thousand bushels, but he stood on it until the last day of the month, and by accident, took one cent profit, because the market sold both above and below on that date.

Q.—He is not typical? A.—Well, no, I should say he is not typical, but as individuals they do hang on. When they buy they think they are right, and usually hang on until the market is exhausted.

Q.—He might have been a man who bought this thousand and forgot all about it? A.—He didn't forget about it, I don't think, but that is the only trade he made.

Q.—Still he was strongly tempted to realize, and he withstood the temptation each time? A.—When it got up to the peak he was apparently looking for a higher price.

Q.—He might have been asleep? A.—We find a great deal of that in the market, and it is more or less human nature. We find out likewise with large traders, as well as small, who accumulate a line and get to the point where they can't let go of it, and accumulate four or five million bushels long, and during the day when they undertake to sell it, they can't sell it because the minute they start to sell it the price declines.

Q.—They have too much of it? A.—Yes, and the prices have been carried to artificial levels, that the general economic conditions and sentiment does not justify. When they sell half a million the price declines a cent or two, and does not spring back. Maybe in a day or two they will sell a little more, and the price goes down some more, but it does not come back.

Q.—That is not peculiar to wheat. You find the same thing in the ordinary Stock Exchange transactions? A.—The same thing. Those same traders will come back into the market and carry the price back up again, and then try it again, and finally get to the point where they see no bottom in the market, and a large speculator is peculiar in that, that when he is through, he is through, and he says, "Sell it at the market."

Q.—That is not peculiar of a speculator. Take the case of an ordinary business with a large line. For reasons of his own he wants to cash out, and he gives an order to sell, but to sell judiciously, to take three or four months at it. It is the same principle? A.—Yes. And the wise business man, when he realizes there is no market for his goods, he has to dispose of them at a sacrifice.

Q.—Does the Chicago market go down every time a half million bushels of wheat is sold? A.—No.

Q.—You have seen it go up? A.—Sometimes it goes up.

Q.—Would you say that the cause of the decline when it happened was because of the sale of a half million bushels? A.—It has a weight; it is necessarily so, of course. As a general rule, you take a sale of two million bushels, it has a pretty heavy weight on the market, and somebody has to absorb it, and unless you have very strong factors it wouldn't be absorbed without a decline in price.

Q.—Under certain conditions? A.—Under certain conditions. If you have a bullish sentiment, and bullish conditions, and at times when the general public is in the market, then you can't hold it. Going back to the 1924-1925 price, in 1923, and in the first half of 1924, the market was dead, no volume of trading. We were condemned, and they said that the government regulations were keeping people out of the market, but that year in 1924, you will remember, it was short in wheat, and they were bullish on wheat, and along in July the market started to advance. Now, the professional traders, most of them, stayed in that market until it got up to about $1.75 or $1.80, and at that time the public took it away from them and carried that market to $2.05⅞.

Q.—Were the public doing it on their own, or goaded by somebody? A.—Well, the Press all over the country, particularly the papers in Chicago, were carrying big headlines, talking about $2 wheat, and $2.50 wheat and $3.00 wheat, and how this trader had taken a lot of money, and how his clerk in this office had made a profit of $20,000 or $30,000, and you couldn't hold them.

Q.—Was that merely as generated by a newspaper story, or induced as publicity? A.—I think it is just public, grew out of the generally bullish enthusiasm that develops under those conditions. Some of it may have started in that way in the beginning. We get suspicious cases, but we have no proof at the start. I mean, the newspaper men are in the offices, talking with everybody, and everybody is enthusiastic, and talking of higher prices, and it becomes news, and gets on the front page.

Q.—Each newspaper likes to give a higher price than the other one? A.—Yes. By the way, when you see it getting out on the front page of the newspapers, if you have plenty of money in it, sell it.

By Mr. Commisioner Evans:

Q.—Did you ever study that year of 1924-1925 to see what the mean level of the prices throughout the year was, as to how that would compare with actual conditions of supply? Whether those somewhat extreme movements in that way really distorted the price level in relation to quantity? A.—The main price came out in the end, to where it should have been. In other words, prices went too high. It was clearly evident they were going too high. From that point, from about $1.75 that it was carried up, the professional traders and large traders liquidated about twenty-six million bushels, and the market declined, and then they started to pick it up again, and carried the price on up to about $1.90. Along about the 1st of March at that time the price went to about $2.02, and in April wheat was worth about $1.36½ cents. There they ran into stop loss orders, and the market dropped one day about 14½ cents, and that heavy drop in that day was not due to short selling, it was due to the dumping of a large line of long wheat, which had reached the point where the profits were practically exhausted, and that is the reason we take

the position that both large long lines and short lines are detrimental to market movements, and a large long line in the market is usually more dangerous in the decline than the selling of short, because it has a weight in distress or a position in distress, and rather than take a loss, or minimize the loss, they dump it on the market, and get out as quickly as they can.

By the Chairman:

Q.—Weak sellers? A.—Yes.

By Mr. Commisioner Evans:

Q.—It would have been your own opinion that price should have stayed at about $1.30, whatever it was. That is, you are attributing the beginning of the rise to big speculators taking hold of the market, and you have just said that you don't think it is a good thing for either long lines or big short lines. Do you think they made a mistake in taking hold of it at that time, or was it a world condition that was moving that price to the higher level? A.—It was a world condition at that time because Europe was short of wheat. We had a big crop in the States, but Europe did not believe it, and they were short of wheat in Europe.

Q.—Do you know what the total world supply in that year was? A.—I don't remember just what it was now.

Q.—Would it surprise you to know it was the shortest crop we have had in ten years? A.—It was a short world crop, but I do not recall the figures.

Q.—Excluding Russia, for which we haven't definite figures for that year or earlier, it was the shortest world crop in ten years, that is 1924-1925, and it is just a question whether it was a fundamental world condition which was doing these things, or these few long lines in Chicago, or the public rushing in in Chicago? A.—It was both. I take the fundamental condition was responsible for the start of it, and when the public gets in you can't stop them. I might follow that up a little further. Take in 1926, here in the 1925 crop. The 1926 May wheat in December advanced to, I think, $1.87 or $1.85, December 1925-1926 May future. And as the market turned to advance there were heavy sales of European interests in Chicago. I do not believe there was any justification for the advance. The Europeans were forced to cover with a considerable number of bushels.

Q.—You are talking about the early months of 1926, in the 1925-26 year? A.—It was along after harvest in July.

Q.—Coming to the 1926-27 year? A.—It was when May wheat in December advanced to $1.25½.

Q.—I don't want to take too much time. What I have in my mind are world's crops for the last ten years, exclusive of Russia, drawn to scale the same as is used for the scale of prices. Liverpool contract grade prices, as reported by Broomhall, high and low per month, are put on the same base or on the same scale as the quantities, and you see the absolute correspondence of general price levels throughout the whole season to the actual quantity—one of the most extraordinary correspondences I have ever seen. Winnipeg prices for the same years show substantially the same thing, with the exception perhaps of a higher level in one year for which Chicago and Winnipeg are responsible. But in other respects until the big carryover at the end of 1928-29 in the world you have that correspondence. A.—We claim to keep track of the general supply of the world's crop and so on. In the long run you will get back. You cannot get very far away from the supply and demand.

By the Chairman:

Q.—The 1926 crop with that in front of you shows one or two things. I may say from the statistical point of view, it is one of the most satisfactory pieces of work done on this whole subject. It gives me a little appetite for more. A.—I might say that is one of the things that we are trying to do with our work in the administration of the Grain Futures Act. We have not undertaken to see how many cases we can get up for technical violation of the Act. We are trying to study the market futures with just as little burden on the trade as possible. Some of our publications are burdensome for the ordinary reader but we want to get them to feel we are interested so that they may feel that the futures system trading is right. If not, let us make it better, and carry on, and through the general concensus of people who have opportunities to study it; and that's the reason we are giving this detail because we want the opinion of other people and your own.

Q.—In your endeavor to get correlation between trading and the classes of traders you have your highest correlation with your eight speculators. and the others tend to move a little behind them and therefore not to turn as quickly. That would be fair? A.—Yes, that is so.

Q.—What was the reason why the others, not the eight were slightly behind the eight? I know what one of the eight would do. He also would have a better knowledge and perspective and be more mobile. A second one might do this. In the nature of the case of the small ones carrying accounts with a commission house, there is the possibility that the small people might be carrying orders on the basis of such and such a limit of price, and when it touches that it comes in as an order, that is, there is greater inertia, whereas like the eight speculators, like a mobile column, can turn very quickly. The speculators who are carrying a large number of small orders can only turn rather more slowly. You get advance knowledge or better knowledge on the past of the eight. You get greater mobility because they are not carrying all those orders, and the small people do not attend only to wheat and see which way the market is going to turn. Is there any

other reason you can see? A.—I think that fundamental, I don't see any other reason fundamentally. Of course, they are the leaders. They always have, every large trader always has. In other words, at one time I might illustrate it in this way. One of the presidents of the large grain firms in Chicago said, "You don't need to tell people to buy and sell. Just have someone go into the office and walk at the back of a row of chairs and remark two or three times during the course of the morning that such and such a large trader is buying or selling wheat. Don't say anything more, and in a little while you will see the pencils come out and the orders will come in."

Q.—That's the main reason that correlation was more for the eight than the others? A.—Yes.

Q.—It is not a thing of rules and regulations? A.—Yes.

Q.—Suppose you could keep out of futures markets everyone who really did not study wheat and understand it, and had only got people who had really some right to their opinions, and supposing instead of everyone trying to get to the doors first, people said, "Well, after you," a little more than they do, would it really make much difference in the average price of wheat? A.—I don't know that that question can be answered. I think we might not have any violent fluctuations.

Q.—Such as rapid oscillation? A.—Yes.

Q.—You would be nursing one speculator against the other? A.—Yes.

Q.—And there would be the legitimate difference of degree between people as to the prospects? A.—I might say that we find that as in ordinary traders there is a difference of opinion as to the buyers and sellers, and difference of opinion in the large traders, an honest difference as to value.

Q.—I realize that, and I say if you excluded everyone else with difference of opinion, would you get oscillation of prices not as numerous as now, but would the average price of wheat to the farmers be altered? A.—I doubt if the price of wheat would be altered very much. We have comparisons, for example, between operations and the futures markets and price movements prior to futures markets seventy-five or eighty years ago. Now, to me, personally, that is a foolish kind of comparison because it does not mean anything.

Q.—That is a very important statement. A.—There may be others with a different opinion. I mean what we call down with us "Pre-Civil War days." We had violent drops in the price of cash wheat. The price might move along at the same level and it suddenly drops, because in those days it took Chicago two weeks to find what New York was doing, and six weeks to find what Liverpool was doing.

Q.—The fluctuations were all very violent, but not so numerous? A.—Yes.

Q.—Now you have not? A.—Every country elevator can find out in a minute what it is in Liverpool, London or Buenos Aires.

Q.—Would you say in those days fluctuations were very great, but oscillations were few? A.—Yes, I think that is true. By the way, I have a chart I brought with me. The Commission may have seen this chart. It is the price of wheat for five centuries. It is that Broomhall chart. I have charted it from that. I don't know that it has anything particularly to do with this.

Q.—We have already been back 549 years, but did not stay long, but those are yearly fluctuations and they are tremendously violent. A.—And to what extent they take in various factors of the exchange and so on, I don't know.

Q.—Did the price of English wheat that was on their market in those days and naturally which was depending on its own supplies and completely at the mercy of its own weather, not only in England as a whole but just the district where it was transported, therefore the price at any point was really a price at the mercy of the supply? A.—Yes, the local supply. This is the chart I was looking over. This is a comparative of the high and the low monthly price for wheat and corn at Chicago from 1876. Look at it and observe carefully. It is possible to check up prices at harvest time and prices the following May and so forth.

MR. COMMISSIONER EVANS—Do you want it back? A.—Yes.

By the Chairman:

Q.—If you cut out the war years altogether, what inference would you draw? A.—That chart was made up to show the relation between wheat and corn, to show the instances when the price of corn got above wheat. Last fall the causes were because of corners in corn.

Q.—At any rate, until the disturbances of the war, and that is with the belt for corn, the belted price is a narrower belt than the belt in wheat? A.—Yes.

Q.—How do you account for that? A.—That is primarily because the corn is more of a domestic product.

Q.—I take it this is of one quality? A.—It is supposed to be the equivalent to their contract grade there, No. 2.

Q.—The high and low seems to be a very much wider condition than in corn? A.—Yes, that is the price for the month.

Q.—You have corn futures and wheat futures? A.—Yes, but they are cash prices.

Q.—Is there any inference that you could draw from this chart? You are trying to draw a different inference. You are trying to draw the relation between corn and wheat markets? A.—Yes, that is what we made it up for.

Q.—I have been looking at the question of corn futures from the point of view of any lesson we may learn about the way it may affect fluctuations. There is nothing here we can gather? A.—No, Sir, Josiah, not in the corn futures.

(Exhibit No. 41, chart, produced and marked.)

By Mr. Commisioner Evans:

Q.—Your corn futures tend to follow your visible supply? A.—Much more closely than wheat.

Q.—Your price fluctuations are relative to the United States crop and the United States consumption, because only a very small percentage of your total crop is exported? A.—It is practically all local consumption. Of course, the last year crop got abnormal on account of the shortage of the corn crop.

By the Chairman:

Q.—You have read practically, I expect, everything on this subject; what would you say of a statement by someone, say a publicist in these matters, that the markets in primary products without futures show larger fluctuations on the part of their price than markets where they are used? Have you seen anything of a scientific character to support that? A.—I have not seen anything. I am willing to accept that.

Q.—There is a quotation here from the President of the Nineteenth Annual Hay and Grass Convention at Kansas. The President referred to the fact that fluctuations in this market were pre-eminently because there were no futures and because a man who handles hay speculates largely, and takes chances. For this reason fluctuations are large, and often operations show a difference from twenty-five to fifty. That means in primary products without futures you have larger fluctuations because there is no hedging? A.—You have larger fluctuations in hay proportionately and it seems there are somewhat many factors. The question of quality, and your immediate supply and demand. It is a local demand in hay that largely affects price because of the freight rate. It cannot be established, because there are great distances.

Q.—Without pursuing it with weight, those gentlemen practically allege that if he could find a way of hedging his purchases his fluctuations would be less. Is there any reason to suppose that is wrong? A.—I don't know if there is a reason. I might answer that this way, however, that that question is perhaps both right and wrong. Now, we have been taught to believe that as a result of futures markets for example that these minimum fluctuations—I might say we have in our nine years of work not seen anything in the operation of the futures market to justify us in reaching that conclusion.

Q.—Have you seen anything that would negative it? For, after all, the last nine years have been an extraordinary period. A.—The conclusion we have reached as a result, you have higher prices, but likewise have lower prices, and you have wider fluctuations than you would have with others.

By Mr. Commisioner Evans:

Q.—Have you compared price fluctuations with ten years before the war? A.—Yes.

Q.—Ten years after the war? A.—Yes, we have compared those.

Q.—What did you find under conditions which were less subject to exceptional factors than the last ten years? Did you not find an extremely steady flow of prices? A.—Yes, it was more so than it has been recently.

Q.—That was a period when the futures markets were operating? A.—Yes.

By the Chairman:

Q.—Would you agree that in this very interesting piece of analysis you must not look at the fluctuation in prices, you must only compare them with the other fluctuations around the general index? Insofar as they share their fluctuations in that general index, there is nothing in that sequence of figures. Therefore, you have to eliminate your common fluctuations due to the measure of value, whether it is paper currency or gold? A.—Yes.

Q.—Or rate of exchange? A.—Yes.

Q.—When you consider how the rates of exchange are fluctuated and how your general trend of prices has introduced a most disturbing factor, would it not be better to attempt to isolate these fluctuations before we draw lessons from them? A.—Well, that is possible. Yes, I think that is possibly true.

Q.—It is a fair criticism? A.—Yes.

Q.—If I may give you another sentence from the evidence we have had, what do you say to this: If we compare price fluctuations with futures trading with those before the days of futures trading, we find at once a vast difference. Fluctuations of ten cents a bushel in one day are about as common as fifty cents a bushel in one day then. Of course, part of the price stability is due to better transportation, part is due to futures trading. What do you say to that? A.—Well, it seems to me our conditions are so different at the present time from what they were then that a comparison to me, personally, is of no value.

Q.—It is of no value to you? A.—No.

Q.—You know the Garfield Report on futures trading? A.—Yes.

Q.—Would you agree with its finding that violent fluctuations in the price of cotton have been prevented by futures trading? A.—By hedging?

Q.—Well, in the Garfield Report we are told that futures trading in cotton prevented violent fluctuations in prices. A.—I have not any very first-hand definite information on cotton. I think the situation is probably a good deal the same as wheat. We have prices carried higher, and likewise carried lower. The general average would not change.

Q.—You are distinguishing between what I call fluctuations and what I call oscillations? A.—Possibly not fully. You have oscillations, now, for short periods, or daily?

Q.—Yes, I call oscillations things that happen from day to day. Fluctuations I call things that happen in a period of four or five months, what I might call the trend of the oscillations. A.—It is the same thing, the same trend. At times it gets too high, just like the market got in 1925. I think the market went too high and it was carried there by speculation, as events afterwards demonstrated.

By Mr. Commisioner Evans:

Q.—I have been wondering, Doctor, why in showing the volume of trade on the charts that appear in your publications you label them all sales. Why do you label them sales instead of purchases? A.—We label them sales because that is the practice followed in the New York Stock Exchange to show them sales. There are, of course, an equal quantity of purchases.

Q.—The use of that word may possibly convey to the uninitiated, or the public, an impression that might not always be quite correct? A.—I don't think so. I think it is the common practice with regard to all of these things. We sell real estate, goods, stocks, grain.

Q.—But you attribute any such results as may be to the selling, instead of to the buying.

THE CHAIRMAN—It is a psychological point.

MR. COMMISSIONER EVANS—A very important psychological point.

THE CHAIRMAN—It follows the course of general morals, to regard selling as the aim of all life, whereas it is buying that is the thing we actually live for.

WITNESS—Well, we have, in our reports, followed that same practice.

By the Chairman:

Q.—You don't do it intentionally, but Mr. Evans points out that it has an important psychological effect People think it is the selling that is the cause of anything. A.—There is more human psychology in the grain futures market than in anything I have ever been connected with. That is what makes it so interesting.

By Mr. Commissioner Brown:

Q.—One or two questions I wish to ask that perhaps have a bearing more on the general aspect of this question than on the technical aspect. The question within the remit is, what effect futures trading has with reference to the price received by the producer. The interest of the producer is the predominant consideration in this question, and not the grain trade, and, as I see it, it has the two aspects, that we have already dealt with. That is, the larger aspect of the open futures market, which in the light of the evidence so far, at least, apparently in your judgment, is in the interests of producers; that is a true statement, is it not? A.—I think that is so.

Q.—That represents your view? A.—Yes.

Q.—Then there is the more detailed aspect of the question which involves the question of possible abuses in the trade and the possible supervision and regulation of it, and it is with that aspect, as I understand it, that your Grain Futures Act was enacted, is that correct? A.—That is correct, yes.

Q.—Well, then, the Grain Futures Act, which was enacted by the Congress of the United States, as I understand from you, was the result of effort of the producers of the United States covering a great many years of serious work; is that correct? A.—That is right, yes.

Q.—And when these enactments were before Congress they were violently opposed by the grain trade in general? A.—I think that is right.

Q.—And when enacted they were both contested by the grain trade in the highest court of your country? A.—Yes, sir.

Q.—In the one case the court found the Act ultra vires, and in the other case found it within the competence of Congress? A.—Yes. I might say in that connection that the two Acts were practically identical in substance, based on different provisions of the Constitution.

Q.—I quite appreciate that. Under the Act that is at present in force, as I understand it, general rules and regulations may be put into effect, by what authority? A.—By the Secretary of Agriculture.

Q.—The Secretary of Agriculture? I have not had the opportunity of reading this Act and that is why I am asking this question. The Secretary of Agriculture has full authority to make regulations and rules for the carrying out, for the administration and the enforcement of the Act, as contemplated by Congress? A.—That is right.

Q.—And those rules and regulations may be amended from time to time as the necessities of the case may require? A.—Yes.

Q.—But entirely within the control and entirely depending upon the view of the Secretary of Agriculture as to what is advisable at that particular moment? A.—That is right, as far as making the rules is concerned.

MR. COMMISSIONER EVANS—But within the Act, though? A.—Within the Act.

By Mr. Commissioner Brown:

Q.—Of course; otherwise it would be ultra vires. Well, now, I thought I heard you say that although the grain trade had violently opposed these enactments and had taken them before the highest courts of your country, that if the legislation was now done away with, the grain trade itself would object to such a measure? A.—That is only with reference to reporting the volume of trade in the open commitments.

Q.—Only with reference to that feature of it? A.—I think it goes without saying that they would be quite willing to see the Act repealed.

Q.—That is, the grain trade would be quite willing to see the Act repealed? A.—Yes.

Q.—I thought perhaps that the majority of the men in the grain trade would have by this time discovered the benefits of it, the merits of it, and have changed their minds with reference to the possibilities of it; that is not so? A.—I don't think that is true.

Q.—You think that even today the majority of the grain trade in the United States would still oppose this legislation? A.—I think they are in a position where they don't like to make reports, and they don't like us to examine their books and records. It is perfectly natural they should take that position.

By the Chairman:

Q.—Have you any connection with the Internal Revenue Department, the Income Tax? A.—No, sir. We do work with them sometimes, because they are interested, of course. There is contact with us on sales of futures.

Q.—You are not allowed to give any information to the Internal Revenue Department? A.—I would not say we were not allowed. I could not answer that.

Q.—It is a perfectly serious question on my part, because I know that one of the reasons why such measures compelling traders to fill out forms about their output, are opposed by traders, is because they feel that all the departments of governments behind closed doors are one, and anything they have there may be looked at by the Inspector of Taxes; that is not so? A.—I would not like to say that things that are given to others are not available to the Inspector of Taxes.

Q.—That would be a sufficient reason in itself. I know that side of human nature. It may not have any influence in the grain trade at all? A.—I don't think so. The taxes are small. Our taxes are one cent per each hundred dollar valuation. At the present price of wheat that does not amount to much.

Q.—That is the grain tax? A.—That is the revenue tax. It is about the only sales tax we have left. It is on the sale of futures.

Q.—But from your examination of these different books very important information might be given on the point of super tax and income tax? A.—No, sir. In fact, we find in our examination of the books we very seldom get into the profit of the individual trader.

Q.—But the turnover and the amount of trade is very important? A.—Yes.

By Mr. Commissioner Brown:

Q.—You have no reason to believe, Doctor Duvel, that any other consideration constitutes the real objection of the trade to this legislation; you have had no reason to believe that? A.—Referring to the taxes, no, sir. I don't think that question ever entered into it at all in any way.

Q.—As far as you know it has not? A.—No, sir.

Q.—Well, now, as I understand it, after this legislation was put into effect and you promulgated the rules and regulations under it, the Chicago Board of Trade formed what they called a Business Conduct Committee? A.—Yes, sir. That was in 1926.

Q.—There had been up to that time no such committee in the Board of Trade operations, connected with the Board of Trade operations? A.—No, sir, not up to that time.

Q.—Do you know what was the force, the impelling force, that led to the constitution of that committee? A.—Well, fundamentally, it was at the request of the Secretary of Agriculture.

Q.—You say it was formed at the request of the Secretary of Agriculture? A.—Yes.

Q.—What is your authority for this statement? Do you say he made a special request? A.—There was a conference with the members of the trade as to what provision could be taken for dealing with some of the irregularities and some of the situations on the trade.

Q.—That is, an examination into the operations of the trade revealed, in the judgment of the Secretary of Agriculture, the necessity of a Business Conduct Committee? A.—The Secretary at the time took this position, that we would accomplish a great deal more by working in co-operation with the trade, rather than undertaking to rule with an iron hand and administer the law, that we should work in co-operation with them to iron out some of the difficulties, and he called a conference in Washington at that time and out of that conference developed the rule providing for the Business Conduct Committee.

Q.—Quite so. I think I get the atmosphere correctly. That is, when you had the responsibility of administering the Act you called the trade in consultation to see whether or not it was possible to carry out the provisions and satisfy the producer, without the necessity of using the iron hand? A.—That is true. Now, there is another factor in

connection with that, that I think should come in here. These large tradings on the part of individuals which the Secretary considered excessive trading, was a matter over which we had no control. In our Grain Futures Act there is no limit. A trader can buy a million bushels or 20,000,000 bushels. I have no authority to limit his trade, or to prevent him from buying or selling, unless we prove manipulation. Well, the Board of Trade has such authority and the Business Conduct Committee handles that operation. That was one of the factors that was at the back of that Business Conduct Committee.

Q.—I notice that Doctor Boyle said that the big trader should be brought more and more under the scrutiny or domination of the Business Conduct Committee. That is the essence of what you are endeavoring to give us at the present moment? A.—That is true.

Q.—So that appears to be the view of Doctor Boyle, as well as yourself. It is also stated here, in Doctor Boyle's memorandum, quoting from your report of 1925, that the Business Conduct Committee has been in operation only a few months and excellent results have been accomplished. Now, I wonder if you could tell us, as near as you can recollect, what those excellent results were? A.—Well, we have a good many things to take up with the Business Conduct Committee and they have always co-operated with us very well. Irregularities of any kind that came up in the market we discuss with the Business Conduct Committee, it is taken up with them.

Q.—In what way would you get hold of the irregularities? A.—Well in the way orders are handled sometimes.

Q.—I want to get at, in the first place, how you come in contact with the work of the Business Conduct Committee and the operations of the Exchange. Is it at long distance range, or have you a man on the spot? A.—We have our main office in Chicago and that is by personal conference with our supervisor in Chicago, rather than in Washington.

Q.—You have a supervisor in Chicago? A.—Yes, our main force is in Chicago.

Q.—And the office is in very close touch, of course, with all the operations that go on there? A.—It is at the call of the Business Conduct Committee.

Q.—To what extent can you under your rules and regulations go in and examine and scrutinize the operations of the Exchange? A.—We have access to the books and records of the members of the Exchange at all times.

Q.—You can at any moment go in and examine the books and require the members to give you such evidence as you think necessary, is that right? A.—What we usually do in that case is just call for the books, and our auditors make such examination as is necessary. I might say in that connection, for the enlightenment of the committee, that we have access to the books everywhere, whether it is in Chicago, California, or Winnipeg, or Toronto.

Q.—That is, of the men who belong to the Exchange? A.—Yes. We have been here in Winnipeg a number of times and examined books in Winnipeg.

Q.—In tracing operations? A.—In tracing Chicago operations. And I have had the finest co-operation of the members of the Exchange here. I might say in illustration, we had a case come up from a branch office, a branch office in Liverpool, and they could not tell us what was back of the order. We asked them to find it out. It was necessary to know it. And they came through with the information as to where those trades belonged.

Q.—As the result of your investigation, if you find that something requires explanation, it is within your competence to ask the member to explain? A.—Yes, that is right.

Q.—And if he does not comply with your request, you have some system of dealing with him? A.—Our first action in that case would be to report him to the Business Conduct Committee. Now, the Business Conduct Committee would usually iron out such difficulty, and if not, if they refuse to furnish the information, then the action under the law is that the responsibility then rests with the Exchange. The only alternative the Exchange has is to expel the member if he refuses to furnish that information. Failing to expel the member for refusing to furnish the information, then the next action is with the Department of Justice against the Exchange, or the Secretary, rather, against the Exchange, to cancel its designation, which, of course, closes the market. But the penalty is too drastic and that is another reason for setting up a Business Conduct Committee. I might say in that connection that the trade naturally does not like this examination and we have a case now pending in court, and will probably go to the Supreme Court, an injunction suit to prevent us getting at these records. Just where that will get I don't know. This case has already been to the Supreme Court once.

By the Chairman:

Q.—Doctor, can you, as one of your weapons, join in the game yourself, and through your agents make a transaction which you follow through to see it gets a fair deal? Supposing you suspected a series of things, couldn't you get into the game by having an offer made for a sale or purchase in order to follow it through and test what happened? A.—We would not need to, you could take any order that had gone through. Of course, our people are not allowed to trade. Our Act does not prohibit them from trading if they want to.

Q.—I mean for the purpose of discovering what happens to a given transaction in a particular area, in a particular time? A.—We have to do that on our own responsibility. It would probably cost us some money.

Q.—There is no vote of the Treasury to stand experimental losses? A.—No.

By Mr. Commisioner Evans:

Q.—Do complaints ever come to you from members of the Clearing House itself? A.—What character of complaints?

Q.—If there have been what you call irregularities, or what you might consider would be irregular methods or transactions, surely the party of the other part would suffer? A.—The complaints usually come, of that character, from customers. I mean, the transactions between the Clearing House are ironed out within the Clearing House, and without difficulty, usually, but the complaints that come to us, and we get them all the time, are from customers complaining as to how an order is executed. I might say in this connection when we get a complaint practically always there are two classes of complaints; one is a direct complaint as to the execution of orders, and the other is a complaint as to our failure to properly supervise the market. When we get a complaint of the latter, why, there is only one question to ask the man, and that is, Just how much have you in the market? That man is either long or short. I will give you, for the benefit of the Commission, an illustration that we had at one time from a trader who had appealed to the Secretary, with two or three wires. That was in 1925, I think. He complained that the market was being manipulated down in corn. I was in Chicago at the time, and the Secretary sent me the wire. I said to the man in the office, "You go down to so and so, there is where he trades, I think the matter with him is that he is long corn." He got down and he found he was long about 500,000 bushels of corn, and had a five cent loss on it, and he wanted the Secretary to take some public action to turn the price around so that he could take his profits. Within ten days the market turned around and advanced and he had a profit on his corn, and we didn't hear anything more about it. So when a customer comes to complain of failure to do our duty we know at once that the man is in the market, and that he is on the wrong side, and the market has gone against him.

Q.—But if there are any irregularities, or unfair practices, then either some agent, who is a member, either himself or for his customer is going to be the sufferer? A.—That is true, yes.

Q.—And from that source you would expect complaints to come if irregularities did exist, and if they did not you might think that the irregularities perhaps were not very serious. That is, you would expect them to come if there were irregularities? A.—Those are complaints of course, from traders. They may complain as to the execution of orders. They may complain that they did not get a proper execution of the orders. We get those all the time, and if it seems justified, the complaint, and something we have authority to investitage, we do investigate, we send a man to the books and find out how the order was executed.

Q.—The point is there may or may not be an effect between the futures market and the price that the producer receives outside, but it must be certain that within the futures market itself, if the irregularities exist, there are some traders, or their customers, who are the first victims anyway? A.—That is right.

Q.—There can't be an evil there without someone suffering within the group of traders for themselves or their customers? A.—That is right.

By Mr. Commissioner Brown:

Q.—The irregularities or abuses that may have existed may from time to time arise in connection with the operations of the Exchange, as I understand it now, are largely safeguarded against by the Business Conduct Committee? A.—In a measure, not altogether. The Business Conduct Committee, of course, can only act within the authority of the rules of the Exchange.

Q.—I put it this way, they constitute quite an element, a very important element, in regulating and minimizing possible abuses? A.—We have found them very helpful in that connection in dealing with individual cases.

Q.—And over and above the Business Conduct Committee you yourselves, from the Department, through your representative at Chicago, serve to eliminate other abuses? A.—Yes, sir.

Q.—That is correct? A.—That is correct.

Q.—That is to suppress and to eliminate abuses? A.—Yes.

Q.—That may arise from time to time? A.—That may arise. For instance, if we think some trader—the market is getting in a dangerous condition, and some trader is accumulating a line so he has control of the market, that matter will be discussed with the Business Conduct Committee.

By Mr. Commissioner Evans:

Q.—What do you mean by control of the market? A.—I practically mean control of the market when a man gets in a position where he has ten per cent of the open commitments of the world wide market, I think he is very near in control.

Q.—That is ten per cent of the Chicago market.

By the Chairman:

Q.—Does that kind of thing often happen? A.—It quite frequently happens.

By Mr. Commissioner Evans:

Q.—You wouldn't say that of the world market? A.—No, of the futures market in Chicago.

Q.—You referred to a corner a moment ago, I think you used the expression. Is it practicable to corner wheat in Chicago? under modern rules? A.—Well, they come pretty near it some times.

Q.—How much wheat does it take to corner the market in Chicago? A.—Well, that depends a great deal upon the supply, and the position of the wheat.

Q.—How much wheat could you have in delivery position in Chicago? A.—Chicago? Well, you might of course, the storage capacity in Chicago, the total storage capacity is about 58 million, public and private.

Q.—How much is public? A.—There is about 17 million in public store.

Q.—And that 17 million would provide for all your delivery of corn, oats, barley as well as wheat. A.—Yes, sir, as well as wheat, except they could deliver cars on track.

Q.—But unless they wished to let the cars stand on track, or fill your yards, 17 million is all the space you have there for all grains? A.—That is in public store.

Q.—It wouldn't take very much to effect a bit of a squeeze under certain conditions in that, would it? A.—A man would not need, as a general rule, to buy 17 million bushels and still squeeze the market. Let me give you this illustration. It depends a little on the conditions. I think in 1925 at the opening in the market on the last day of September there was a little more than four million bushels of corn in the September future. There was about 800,000 bushels of corn in Chicago. Now, of that 4 million bushels about 65 per cent was in the hand of one commission house, and when we find that condition we know we have a serious condition in the market.

Q.—I quite appreciate that. A.—A little better than that belonged to one trader, in other words, one trader had twice as much long interest as there was corn available for delivery, because the corn was very short at that time. We were a little new at the business at that time and did not exactly know what authorities there were, and I went to the president an hour before the market closed and I said to him, "It looks to me as if there is an effort to force the price of this corn away out of line to what it should be." And I said, "There is not going to be any corner in this market. It is not going to do anybody any good to force this price up fifteen or twenty cents the last fifteen minutes of trading." He said, "What is the situation?" I told him. He said, "Let me see what I can do," and he went into the pit, and stayed in the corn pit until the market closed. Prior to that we said, "What is the Liverpool price for corn," and we found what it was selling for on the basis of October, and I said, "That is a fair price." Twice during the last two or three minutes corn sold at that price, and there wasn't any corner. I might also add that long interest was held by a man who had run corners, and I guess probably he would do it again.

Q.—That is very interesting. How much wheat naturally in the course of the years flows through Chicago? You have various routes in your country, and there are not so many in ours, but there are certain routes going through Chicago or tributary to it. A.—Usually the maximum of 40 million bushels, from 25 million to 40 million bushels.

Q.—In twelve months? A.—Yes.

Q.—You are familiar, no doubt, with the condition in respect to the Winnipeg market? A.—Yes.

Q.—And what our delivery capacity is at Fort William, something over 90 million bushels? A.—Yes.

Q.—As against your 17 million bushels, isn't it? And I suppose regularly from 200 million, to 300 million, to 400 million naturally tributary in flow right through the terminal? A.—Through the market, yes.

Q.—That would make it a good deal more difficult for a man with 30% interest in 800 thousand bushels to affect the market, wouldn't it? A.—That would be a good deal more difficult so far as a corner is concerned in this market. It might depend on the quality of the crop, and who actually owned the wheat.

Q.—At least, there is a lot of wheat up here, cash wheat, actually moving? A.—I mean if the farmers shipped it in to the elevator in store, and wouldn't sell it a man might have some difficulty in getting wheat to deliver on that contract.

Q.—But the farmers would have to hold nearly 90 million bushels of it? A.—Of course, if the price went up very high they would soon take advantage of it.

Q.—And that wouldn't be against the interest of the producer in that case? A.—The producer in Winnipeg or Canada would be in a little different position, because they, as a rule, keep a good deal of grain in store at Fort William. That, of course, is not true in Chicago, there is no producers' grain stored in Chicago.

By Mr. Commissioner Brown:

Q.—I wasn't thinking so much of a major operation, such as the cornering of corn or wheat as I was of an operation which would have the effect of manipulating the markets to the prejudice of the producer. Have you found as the result of your investigations under this particular Act that it is possible for the large speculators, or a limited group of large speculators to manipulate the market so as to depress it within the day, or from day to day, or over a short period of time? A.—Well, we had one case, I think the most extreme case is covered in our bulletin in connection with 1926 December future. In the latter part of July that year I think that December wheat was $1.50¼ cents. By the 8th of September it was $1.32½. I think it sold down to as low as $1.30. It was a

drop of about 18 cents. At the low point in that market there were two traders in Chicago that controlled 32 6/10 of the interest in December wheat, which future carried most of the hedges. Now, the trade takes the position unfortunately, and we argue with them all the time, that the larger trader is necessary to carry the hedges. But in this instance those two traders were something over 23 million bushels on the short side of the market, and had undoubtedly depressed the price when selling at a time when farmers were moving their grain from the farm to market.

Q.—That is in the fall when the farmer had to sell his grain? A.—Plenty of them had to sell it.

Q.—Would you say that was possible within the day also, and from day to day? A.—Well, not to the same extent from day to day. Of course, if they continue selling and depressing the price then you might have a gradual decline from day to day.

Q.—Dr. Boyle in answer to a question which I put to him said, that in his judgment having observed the operations of the Grain Futures Act it was detrimental rather than helpful having regard to the interests of the producers. What is your answer to that question? That is, the abuses from Government interference more than offset any good that might come from the administration of the Act? A.—Of course, I can't agree with that. I think there has been good accomplished in the Act. I think with more authority, which we have asked for, we can accomplish more good, without any serious injury to the trade.

Q.—Of course, I can understand you are in a somewhat biased position because you are at the head of the administration of the Act? A.—Sure.

Q.—But trying to detach yourself from that position as far as you possibly can, is it your honest judgment that the administration of this Act is markedly in the interest of the producer of grain? A.—That is my honest opinion, yes, sir.

By the Chairman:

Q.—I have just two statistical questions to ask you, doctor. You remember in your examination for 1926 futures, you found that the direct relationship existing between price and the net position of eight large traders gave you a correlation of plus .69, with probable error of plus or minus .03, but when the fifteen firms representing the small speculative traders are correlated with the price they are found to correlate inversely to the extent of minus .74, with a probable error of plus or minus .02. That is related to the period October 1925 to April 1926. Have you done similar work for any other period since? A.—That was when?

Q.—From October, 1925, up to April, 1926, the period during which the total open commitments in May wheat exceeded the open commitments in any of the other futures. You took that period. That is a very interesting result. Have you any similar results for any later period? A.—I think that was the most extreme period. Of course, during the period of 1927 that is the time when our regulations were suspended temporarily, there were some correlations made through there.

Q.—Could you tell us generally how far they were similar to these. A.—I think practically all through where we made them they were of a similar character, but not as pronounced.

Q.—The reason why I was so anxious to see how these correlations were typical of normal times, because there was a good major movement going on during this period, and it might very well be found that the results for a longer period, when the movement was not so large, might not have been so striking? That is page 39, summary of your 1926 book. A.—I think one reason why we have a high correlation in that respect is because you had the operation of two traders that were very active, who were switching constantly from one side to the other as the market was moving along with them, from a long position of 6 or 8 or 10 million, to a short position of 8, or 9 or 10 million bushels, within a few days, and that had an effect on the market. Now, we have never had, I think, at any time a movement back and forth from one side to the other without any relation to supply and demand, because supply and demand was not changed in all that time, and that will influence the price. I might say for the benefit of the Commission in that case too, that some of the large traders once made a statement to me personally and privately. This trader said, "I am not a great deal interested in supply and demand, neither am I very much interested in market gossip." He said, "I look at them, and take them into consideration some, but the thing in which I am fundamentally interested is the position of the general public."

By the Chairman:

Q.—What will the people think? A.—In other words, "where is the general public in the market; let me know that, and then I know how to operate."

Q.—The skilled man is quite as much interested in human psychology and the way it is going to vary, as he is in supply and demand? A.—Quite.

Q.—I want to know if any work you have done modifies or supports it? A.—Supports it along the same general line, but would not be as pronounced as in that.

Q.—If you had taken out the one or two traders, and worked your correlation without them, would you have got as significant correlation? Would you have got a correlation of .5? A.—I don't think you would. I mean it wouldn't stand out so distinct with the larger traders.

Q.—That would have been a very important factor if you could have cut out two of them, and then take your six next larger, take your correlation coefficient for them, and you wouldn't have got anything like as large a figure? A.—I don't believe so.

Q.—Do you think that a correlation coefficient any less than that would in a price of this character be a really significant one? A.—I don't think so.

Q.—That is the ordinary statistical rule, that a correlation, if six times the probable error, would break down completely in this? A.—I don't think it would stand up so good in a case like that.

Q.—Have you ever tried a multiple correlation coefficient bringing the existing price around to the major trend, as well as these two things? A.—We haven't done any multiple correlation.

THE CHAIRMAN—I think we had better ask Dr. Duvel to come back after luncheon interval.

MR. COMMISSIONER EVANS—Just before we open this afternoon's session, I think you will remember at our opening session a remark was made by a witness that in Canada we considered any country unfortunate in not having bread made from some considerable proportion of Canadian wheat, and I think that would apply even to the United Kingdom. At that time it occurred to me a slight demonstration might not be out of place, and I suggested to the Board of Grain Commissioners that their chemical research department might furnish to us a little test. This is a loaf of bread, made from No. 1 Northern flour. They have then taken exactly the same quantity of English flour, from this year's crop, with the same amount of yeast and exactly the same quantity of ingredients and have baked a second loaf. Then, they have taken English flour and put with it Canadian flour in different proportions, and as it would only take a moment, I think I should like to show you the results (placing the loaves in order on the table). This is a loaf made of average No. 1 Northern. It is quite fresh. Next, exactly the same quantity of English flour of this year's crop. Then, English flour eighty percent and twenty per cent Canadian.

MR. COMMISSIONER BROWN—No manipulation?

MR. COMMISSIONER EVANS—Then forty percent Canadian, and last, fifty-fifty.

THE CHAIRMAN—Can I have this one? We always know in England we cannot make bread that everyone will like, if it is entirely British wheat, and we always understood that there must be a certain amount of Canadian wheat as in anything else. You would not expect me to say anything else in view of the fact I have to live with the English farmer.

THE CHAIRMAN—(Resuming the inquiry).

I am rather afraid we may have taken the initiative out of your hands as it may be you were going to develop a line of information for us.

Q.—I think you understand our position. A.—I have brought with me a few pages in an effort to abbreviate material which you would not have to read through.

THE CHAIRMAN—Q.—Could you file it? A.—Yes, and if the Chairman likes, I would like to file it without discussing it. I headed it briefly "Short Selling", and I want to read it.

"The contention on the part of those who favor a wide open and unlimited market is that speculators who operate on a large scale are necessary to support the market and carry the weight of the hedges as the grain moves from the farm to the terminal markets. This implies that the larger speculators always enter the markets as buyers. This, however, is not in keeping with the facts. Traders who operate on a large scale either buy or sell depending on which side of the market they think offers the better opportunity for profit. Neither is the character of their trading always determined by supply and demand. They often switch from a long to a short position or from a short to a long position in the market to the extent of millions of bushels without any change in fundamental conditions affecting supply or demand for actual grain. One of the largest traders once expressed to me privately in substance, 'I pay no attention to the market gossip and am not greatly interested in the supply. What I do want to know is the trading position of the general public.' In this connection it is well to add that the general public, for the most part, enter the market as buyers, and the extent to which they are in the market is, as a rule, well known by the professional traders.

"The fallacy of the claim that large speculators are necessary to carry the hedges during the heavy marketing movement is well illustrated by the trading in the 1926 December future, and I use these illustrations because they are matters of record. On July 19, 1926, December wheat at Chicago sold to a high of $1.50¼. By September 4th the price had declined to a low of $1.32¼, a loss of 18c per bushel. On September 8, the low price for the day was $1.32½. On this same date two traders controlled 22,595,000 bushels. This large line was accumulated during the very period that farmers were in the midst of heavy marketing. These two traders, however, were not supporting hedges by buying for long account, but were selling and depressing prices and increasing their short postions, and our producers were paying the penalty. Their holdings at the close of the market on September 8, represented 32.6 per cent of the total open interest in the December future, which future was carrying the weight of the hedges. The general public therefore was not only carrying the hedges but was bearing the burden of this heavy speculative load of professional traders. This is given in greater detail in Technical Bulletin No. 79, of the U.S. Department of Agriculture (Page 20).

"Looking at large individual speculative operations from a slightly different angle, we have a picture something like the following. Let us assume that in times of stress, such as we have been experiencing for several months, that some individual sells short 4 or 5 million of wheat at Chicago. Under the present Act he has a perfect right to do so. Based on the average yield per acre of 14.4 bushels in the U.S. for all wheat last year, 5,000,000 bushels represents the crop from 347,000 acres. Based on farms of 160 acres, and assuming that these farms average 40 acres in wheat, it would require 8,675 farms to produce this 5 million bushels sold short during the drastic decline in prices last fall, the crop of 8,675 farmers. Applying a similar calculation to the short interest of 22,595,000 bushels of the two traders mentioned above, we find it represents the crop of 1,568,093 acres or the wheat harvest of 39,202 farms of 160 acres, with 40 acres in wheat. After a careful study extending over a period of more than nine years, I do not believe that any individual should have the right, for purely speculative purposes in the hope of personal gain, to either **buy** or **sell** such large amounts. There is every reason to believe that the legitimate functions of our futures markets can be fully and efficiently maintained by a reasonable limitation on purely speculative trading. Based on our studies recommendation for limitation of speculative trading was made first in 1926 in Senate Document No. 135, 69th Congress, 1st Session. No evidence accumulated since that time has suggested the need of retracting that recommendation. On the contrary, much additional evidence further supports that position.

"Returning to the 1926 May wheat future, we find the total volume of trading in the 1926 May future was 7,495,083,000 bushels. Of this total 2,725,000 bushels or four one-hundredths of one per cent were delivered and paid for in settlement of futures contracts. During the life of the future there was a price range of 50⅞c and an average daily price range of 3⅛c. There were 13 days on which the net change in price amounted to 5c or more. These wide daily price fluctuations can hardly be attributed to changes in supply and demand for actual wheat.

"During the period covered by the 1926 May wheat future or from July 8, 1925, to May 29, 1926, there were only 8 traders whose interest in the market at any time reached as much as 2,000,000 bushels. They were not, however, the identical eight, only five being in the market in both futures to the extent of 2,000,000 bushels or more.

"In the 1926 May wheat future there were 122 days on which either the aggregate long or the aggregate short position of the eight traders combined exceeded 10 per cent of the total open commitments. The operations of trader No. 2 were perhaps the most disturbing of the group of eight. At the close of the market on December 26 this trader was long 8,900,000 bushels, or 9.8 per cent of the total open commitments in the May future. In less than thirty days he had switched to the short side of the market and on January 21, was short 9,910,000 bushels or 10.9 per cent of the total open commitments, having sold during 13 trading days 18,810,000 bushels. By February 4, he again had switched his position and was long 6,100,000 bushels or 7.3 per cent of the total. Again on February the 11th, he was short to the extent of 5,900,000 bushels or 7.5 per cent of the total. On March 19, he was again long 8,400,000 bushels or 13.2 per cent of the total, and on April 9, was short 7,700,000 bushels or in control of 13.7 per cent of the total open commitments. This trader bought or sold over 2,000,000 bushels on 19 different days. On October 9, he bought 4,500,000 bushels which amounted to 16.5 per cent of the total purchases of May wheat on that date, and the net gain in price was 1¾c. On January 28, he bought 7,135,000 bushels amounting to 12.1 per cent of the day's business in May wheat, and the net gain in price was 2¼c. On February 8, he sold 6,100,000 bushels or 8.3 per cent of the day's business, with a price decline of 5c, and again on March 20, he sold 6,000,000 bushels or 10.6 per cent of the total for the day with a drop in price of 2¼c. Between January 7 and January 11, inclusive, this trader sold net 13,700,000 bushels of the May future. During this period the price dropped from 180⅞ at the close on the 6th, to a law of 174¼ on the 11th, or a loss of 6⅝c. This trader switched from a long to short or from a short to a long position twelve times between September and March. In one instance he sold 12 million bushels in three days in switching from a long position of 6,100,000 bushels to a short position of 5,900,000 bushels. This was approximately 6½ per cent of the total volume of trading on those three days and the price registered a net loss of 7¼c. Some who are not very particular about facts may choose to call these price movements in harmony with supply and demand. This Commission is fully competent to judge.

"Taking the eight large speculators as a group, there were 33 days between October 2 and April 16—159 trading days—on which net trades of 2,000,000 bushels or over were made. On 30 of the 33 days (over 90%) the price moved in the same direction as the course of their trading. The largest price change occurred on March 1, when the net sales of three of the group of eight amounted to 9,170,000 bushels, with a net decline for the day of 6⅝c. One of the three bought 830,000 bushels so that the combined selling of two traders aggregated 10,000,000 bushels or 10.7 per cent of the day's business in the May future.

Figure 8, on page 26, of U.S. Department of Agricultural Bulletin 1479, which deals with the 1926 May future, shows the various changes by ten-second periods for March 1, 1926. The market opened at 165½ to 166, and declined irregularly throughout the session, closing at 158¾ to 159—a range from high to low of 7¼c. This chart also shows the point of heavy selling in comparison with the miscellaneous trading by customers through two commission houses which included primarily transactions by the general public. The miscellaneous trades through these two clearing firms represent 1,005 purchases aggregating 7,158,000 bushels and 398 sales aggregating 3,349,000 bushels. Of the

1,005 purchases 396 represented job lot orders of less than 5,000 bushels, and of the 398 sales 156 were job lot orders. Of the orders executed through these two clearing firms 88 per cent of the total volume of trading of this miscellaneous group of customers made up largely of the general public."

By the Chairman:

Q.—Do you think if you had worked out the correlation for trader one and two by themselves against the rest you would have got a significant correlation? A.—I don't know how that would work out.

Q.—You have given many striking cases. I am wondering how over the whole series that figure would have worked out. I was wondering whether you had decided that? A.—No.

Q.—You see the relevance of my question? A.—Oh, yes, I see that.

Q.—You have performed a splendid piece of work in examining that

THE CHAIRMAN—We have a number of questions of this kind and we are very interested to have your opinion on that because it gives us an idea of a lot of things we need to know before we get the full functions of the futures market.

By Mr. Commissioner Evans:

Q.—You, certainly, know who the traders were, I suppose? A.—Yes.

Q.—Did they operate in Chicago only in that one year? A.—I guess most of them have been operating there ever since we have been there. I could not say offhand.

Q.—They were more or less regular operators? A.—Yes, they operated from time to time.

Q.—Have you been able to find any other year when any facts have been comparable with these? A.—We find practically the same situation in practically every year since we have been operating; probably not so striking, perhaps not so large a trade as at that time.

Q.—Not such swings in prices—that is what I was referring to. Supposing you take the last thirty or forty years, can you point to any other year with similar swings in prices? A.—Yes. I think within the last year you had swings in prices.

Q.—You had one swing in the summer of 1929? A.—Yes.

Q.—But you had this up and down in 1924 and 1925? A.—Of course, the last year and a half it has been been a gradual turn downward in prices.

Q.—Entirely different character of movement? A.—Different character of trade under different conditions.

Q.—Do you think that the difference between the year you have selected and all of the other years of the last thirty is only that these eight did not make up their minds in any other year to do that; or perhaps there is some factor not related to those individuals at all? A.—We have found it about every year since I have been getting this information, since 1923—the same principle.

Q.—They trade a new way every year—they don't create exactly the same picture every time? A.—Not necessarily. In fact you get so that after a while you can pretty near identify the trader. No two traders trade alike.

Q.—But would it not show in similar price fluctuations and curves in every year, if they were doing that and could do it? A.—I think it does show practically every year, to a different extent. Take the last two years, the volume of trade by individuals has not been quite so heavy as back in that time.

Q.—Did the Liverpool price act just the same way as the Chicago price in 1924 and 1925? A.—Along practically the same way.

Q.—And those eight caused that, too? A.—I would not say they caused that exactly, but, ordinarily, if you have something that depresses prices four or five cents in Chicago, you get some reflection in Winnipeg. It is a question of studying operations between the market and different traders, resulting in practically the same decline.

Q.—I suppose if there were spreads and this initiative, as you suggest, in Chicago, there would be sales in Chicago and purchases in other markets? A.—No, not necessarily, because we find different individuals, some selling in Chicago and buying in Winnipeg, and some other trader doing his selling in Winnipeg and buying in Chicago.

Q.—Difference in judgment? A.—Yes, difference in judgment.

Q.—I have not looked it up but I have an impression that somewhere about October in 1925, there were reports of very bad rust in the Argentine. I think we had the smallest world crop we have had in the last ten years, and these reports on the top of it, and, if I remember correctly, it was afterwards found that the reports had been somewhat exaggerated. I don't know whether that was 1924 or 1925. It was somewhere about that time. In a condition like that, that might have had a very violent effect on prices, outside of anything that any individual speculator might do. A.—Of course, the individual speculator naturally takes advantage of any news or any influence.

Q.—That is, he tries to get what the trend or effect of the fundamental causes of the situation will be? A.—He would not try to buy when conditions were very bearish, or vice versa.

Q.—He wants to get on the bandwagon, but he wants to get on first? A.—He wants to get on first, he tries to, of course. Now, take the situation in our market. Of course,

the contention that we have to meet all the time is that these large traders, when they sell or buy, must likewise reverse that operation in the pit. If a man sells, he must buy it back. Therefore, he is, at least, a potential buyer the moment he sells, which, strictly speaking, of course, is true, and likewise a potential seller as soon as he buys. But it is not so much the quantity in all cases as the way in which this is done. I mean, a trader may have a long line of shorts and yet he may cover through the operation of privileges. He may cover some of that and not buy a bushel in the pit. In fact, we quite frequently see that when a man may be short in the market he comes in near the close of the market and may sell an additional quantity, to depress the price right at the close, and you see that in a great many cases.

By the Chairman:

Q.—You say, to depress the price? A.—To depress the price.

Q.—But not having the effect of depressing the price? A.—I think purposely to depress the price, to force the market into privileges, which gives him an opportunity to cover a considerable quantity of his short line without going into the pit and buying it back. It is worth his while to do a certain amount of selling just towards the end, in order to get a low price at the close? A.—He might want to get into the market, or get out of the market, through operations in privileges. I can give you a somewhat exact illustration on that.

Q.—Have you finished reading that particular statement? A.—Yes.

Q.—Before we pass away from it there were circumstances at that date that made it possible for traders like No's. 1 and 2, to do things that they could not have done at other times. What I mean is this, it does not follow because a certain number of racers are supposed to get a certain result when they run a quarter of a mile on the flat, that they will get the same result over hurdles? A.—No, that is true.

Q.—It might be that in that year there were particular circumstances of which these men could take advantage which at ordinary times there were not? A.—That is true in some of the cases.

Q.—Take this No's 1 and 2, you could not guarantee they would have been so much above their fellows in getting away with it in other times as they were at that particular time? A.—They could not always do it, no.

Q.—Supposing you had a group of traders who were equally matched in their judgment of the supply of wheat and equally matched in judging public psychology but we were into a period of world depression, having regard to gold values, and only one of them understood that, all the rest did not, wouldn't he, for the time being, be the genius of that particular moment and just an ordinary man at any other? A.—That is true. He would be at a decided advantage under conditions like that.

Q.—Then, until we can back up those results with those of other periods, to see whether No. 1 was a genius under all circumstances, it is difficult to say if it is inherent in the system of futures trading, even in Chicago. I mean, the information you have given us is very valuable, it is one of the most important pieces of exact information we have had. I just want to see how much weight it will bear? A.—I might say they are not always successful at it. I have seen—we are trying to keep away from profits—but I remember one illustration where one trader took $750,000 out of the market in profit. Within two weeks he lost $700,000. He was wrong the second time.

Q.—It does not follow that the man who is rocking the boat the most is going to get the most work done, does it? A.—No.

Q.—There is another point on that. It is technical, but it has some significance. When you give that correlation do you correlate divisions from the average, the mean, or do you correlate the first divisions; do you remember? A.—As I recall it, it was from the mean, but I would not say positively I don't actually do those correlations myself.

Q.—If you were correlating two trends in one direction, you get a spurious element, you get a nonsense correlation due to the fact that the trend is in that figure, whereas if you correlate the first differences, you avoid that. It is sometimes wise to see what the respective results are of the two methods. A.—I could not say positively which method.

Q.—It is a very fine instrument you know, but it can cut your hand if you don't look out. A.—I know they are pretty dangerous, these correlations.

Q.—I don't think we ought to put more weight on them than we ought to. May I ask you one or two questions, not on your evidence, but where your experience may be valuable to us. Have you any figure in your mind of a general character, statistical figure, what we might call the multiple of actual wheat represented by the futures market which would be normal for covering properly in an average way all the hedges required without unnecessary speculation? You might say to me it is necessary to have statistics to three times the amount of trade compared with the wheat in existence; but if you sold more than thirty times, you might say there must be speculation there. Now, there is an intermediary figure which is appropriate to what I might call the purely fluid hedging operations, but it does not give any room for speculation. A.—Well, I don't know what that would be. That would be the wildest kind of guess on my part.

Q.—Supposing you had figures which were ten times as great as the actual wheat and a farmer came along and said "This is perfectly monstrous, here are all these wind bushels being sold, depressing the market". You would say "Now, just look for a minute and see what hedging operation involves", and you take him to the two sides of the

account, coming in twice on the same wheat getting along to its market and being hedged again perhaps three of four times, quite legitimate and necessary for the wheat. You would allay suspicion if the multiple were six times, perhaps; but would you allay suspicion if it was sixty times? A.—If it were sixty times, it would look to me a good many more than necessary. Of course, in a normal way, taking hedging operations, perhaps some wheat is hedged on an average four or five times in that turnover. It might be hedged more than that, but we have very few people in the country who do hedging, as far as country elevators or producers are concerned. Some of them do, but not a great deal of it.

Q.—Who starts the hedging? Which is the first stage? A.—It starts usually first when the wheat reaches the terminal.

Q.—Then it is hedged at the terminal? A.—It is hedged at the terminal.

Q.—Then, who next hedges it? A.—If the wheat changes hands and is sold from one to the other, it would be hedged. It might go to millers and exporters, and they would hedge. It might turn over several times.

Q.—Four times, say? A.—Three or four times; perhaps four or five times. Of course, we do have in some sections, North Dakota for instance, our country elevators there do a great deal of hedging; some in Kansas in some sections. My state happens to be Iowa, where we don't grow wheat.

Q.—Supposing it is hedged four times, that would show in the totals as eight times? A.—It would show every time there was a transaction.

Q.—Twice, or once? A.—Twice. There might be eight times the volume without any speculation at all.

By Mr. Commissioner Evans:

Q.—And if in each case a broker was employed instead of the direct operator, and the ownership transferred again, that would double the number without altering the character of the transaction? A.—No, that would not double the number, because the hedge would not go to the broker. It would go to the principal.

By the Chairman:

Q.—Well, we have got eight out of the four transactions and the grievance about wind bushels does not begin to arrive yet. In order to get continuity of a whole year you must have a fair amount of speculation. That is, people come into the market who do not hold wheat, who even things out? A.—If we are going to have a hedging market, you must have some speculation.

Q.—And that will multiply the number again. From the eight transactions for the one lot of grain, which appeared very probable, there would be a number of people holding it for a more or less intermediate period, who do not hold grain at all or want to speculate? A.—Yes.

Q.—And you might usually want something again in order to make a fluid market? A.—Oh, yes. I would think you would want several times the volume of actual grain.

Q.—Ten or twenty times? It might be that without any more speculation than is necessary to provide the futures for the hedging market? A.—I think that might easily be.

Q.—So that we do not really begin to get into the active field of unnecessary gambling as revealed by the statistics, until we get to pretty high multiples? A.—Yes, until you get to real high figures.

Q.—Well, do give me a figure. You say sixty would make you feel rather uneasy? A.—I don't think I can give you that figure. Let me give you this: in Chicago, of course, there is a great deal of trading that is purely scalping. That is operations of the trading in the pit; probably forty to fifty per cent of the total trade.

Q.—That comes into the figure? A.—That comes into the figure. That, of course, is speculative trading of a kind, but we have never made an exact check of exactly all accounts, it is practically impossible to do so without months and months of careful study, but on a conservative estimate we estimate that approximately five per cent of the total turnover in Chicago represents hedging operations at some time or another.

By Mr. Commissioner Evans:

Q.—Do you think you can learn just exactly what are hedging transactions? Can your commission house, or whatever form of company it is that puts through the trade, can they know from the order they receive whether someone in France or Italy is hedging some grain in Chicago or on the ocean, or merely making a speculative trade. A.—We can't always know. Of course, under the law or regulations, I forget which, they are required to keep a record to determine whether or not the man is engaged in the active grain business, but we accept a rather liberal statement. For instance, an elevator interest turns in an account as a hedging account, and we accept it as a hedging account, and as a matter of fact we have good reasons to believe from the nature of the operations that they are not always hedging accounts, but we accept them in good faith.

Q.—Grain over all the world is hedged in Chicago? A.—A good many times, from Liverpool, Buenos Aires, or somewhere.

Q.—You try to include that in hedging transactions, or only the hedging of the United States crop? A.—Of course, in our publications we are, or have segregated hedging, and

we have used the large hedging accounts involving 100 thousand bushels or over, that have reported under special investigation, under resolution of Congress.

Q.—Those would be hedges of United States wheat? A.—Generally United States or Canadian.

Q.—It can't include foreign transactions? A.—It can't include foreign transactions.

By the Chairman:

Q.—But put it in another way, have you formed any idea of the difference in the multiple of the statistics of futures trading, compared with actual wheat in slack times when there is not much speculation going on, and in very active times when you know the public are in? Supposing these statistics in the case of the minimum is 30 but the statistics of the maximum are 60 or 70. That would give you some idea of the range of difference between times when gamblers, or the public, were in, and the times they were out. Have you ever worked out that multiple? A.—No, I have not.

Q.—Do you think it might be useful? A.—Yes, it might.

Q.—It may have some influence on speculative activity as distinguished from pure hedging? A.—Yes, I think I can throw some light on that. In 1924 when there was practically no movement in the market the price movement was small, and there wasn't any need to hedge, because we had practically a stabilized price.

Q.—How long ago? A.—1923-1924. Just before they started up in 1924. We always find when the market is running along on a fairly even keel for several weeks that the general hedging drops off. They do not find it necessary. Hedging where you have a premium on wheat, or different classes of wheat, is only partial protection, and under those conditions they carry their own risk.

Q.—Don't you think there may be an important difference between Chicago and Winnipeg as to the proportion of hedging which is constant? Evidently the evidence before us is that certain people hedge always as a matter of practice. They do not do it only at their own sweet will when things are active, but always do it, but apparently in Chicago there is more picking and choosing of the time? A.—We have different classes. In the States we have large interests who handle a large volume of cash grain who do not hedge at all.

By Mr. Commissioner Evans:

Q.—In the United States 70 to 80 per cent of your crop is sold for domestic consumption, is it not? A.—Yes, about.

Q.—In that case there might be a direct trade between your local points and your local millers, but do you think the situation would be entirely different if they consumed only about a quarter of their own crop? A.—Yes, you have a different situation in that respect.

By the Chairman:

Q.—You would rather expect there would be relatively much more hedging than there might be in Chicago? A.—On the best of my experience and knowledge of this market I think that is true.

Q.—If there is more hedging and less speculation, then the multiple ought to be smaller? A.—Yes.

Q.—Is that right? The multiple of the statistics of futures trading of actual grain ought to be a smaller multiple in this market than it is in Chicago? A.—Yes.

Q.—I will tell you why I asked you this question. Reading the situation in Chicago, and the criticism of the effect of wind bushels upon price some forty years ago—I don't mean I read it forty years ago, but I read it coming over on the ship—the argument was this, only 1/9 of the wheat in Chicago was subject to hedging, but the statistics of futures were ten times the total production of grain. Therefore, such wheat as was subject to hedging was only about 1/90 of the total operations said to be necessary to bring it about. Is that clear? A.—Yes, I think I have got that.

Q.—And from that was deduced that Chicago, from the point of view of speculation, was a sink of iniquity. Now, that was forty years ago. Since then you have got a lot more rules in the game, and then they didn't, have you? A.—Maybe it was better then.

Q.—I want the figure which will give us an indication that something more than a full hedging market is going on? A.—I think they could get along and still carry their hedges on half the trading that they have at the present time. But I don't know, take Minneapolis—Minneapolis and Kansas City—the percentage of the trading there that is hedged is very much higher than Chicago.

Q.—Why? A.—And I daresay higher than it is in Winnipeg.

Q.—Why? A.—Well, there is not so much speculation, of course, the speculation goes into Chicago. Whether or not, taking Kansas City for example, the hedging operation in Kansas City, whether Kansas City could carry that on the speculation they have in the absence of a speculative market at Chicago, I can't answer, because just as soon as Chicago gets out of line, or Kansas City gets out of line, there are some trading operations that brings them in, and there are times when relatively a good sized order in Kansas City or Minneapolis market is difficult to execute.

By Mr. Commissioner Evans:

Q.—And there is a spreading at Chicago not only as respecting Winnipeg and Liverpool, perhaps Buenos Aires, but also as respects all your local markets? A.—Yes, Kansas City, Minneapolis, and likewise spreading back and forth between futures all the time.

Q.—The different months? A.—Now, that same question arose, and we have to meet it in the States, if you limit the large traders would there be enough interest in the market to take it without a market leader. I don't think anybody can answer that question.

By the Chairman:

Q.—I have one more line to take: Can you tell us whether the farmer as such comes into the hedging market, or the speculative market as a matter of course? Does he sell his cash wheat and take no further notice of the market, or does he hold his wheat for a rise, or does he sell his cash wheat for futures? A.—Most of our farmers sell their cash wheat at the local elevator, and take what price it is at the time they get ready to sell. We have a few of them who will sell on the futures market, if there is a satisfactory bulge in the futures market they sell. I may say we rather encourage them to do that. If there is a bulge in the futures market, and they are fairly well satisfied with the price and quality that they are going to have, or that they are going to have a crop, to sell and deliver on the contract.

Q.—What do you mean by a bulge? Do you mean the price as compared with cash is very favorable? A.—The cash and the other moves together, but I think it was in 1926-1927, where there was an advance in price, I think it was along in May to $1.60 in Chicago. The farmers in the southwest, in Oklahoma and Kansas, they had their wheat pretty well along, and they were reasonably sure of a crop, and that price looked satisfactory, and a bunch got together and sold, as the records will show, about 200 thousand bushels. At the time the wheat was actually ready to market the wheat was down to about $1.30. They got $1.60. We rather encourage them to do that, to use the futures market when there is a temporary advance in the market. It may be an advance that has accumulated over three or four weeks, if the price is satisfactory to them.

Q.—Is there any advantage to them buying in the futures market as against the cash, if they are moving together and they have to pay their storage? A.—In that case there would be an advantage. At that time their crop was not harvested.

Q.—Then the spread was greater; the difference between the spread was greater than the storage charge and interest? A.—Yes. And at the time they got the wheat ready to market in July the price declined, because they came through with a harvest bigger than appeared along in May. And they got the advantage of it. We have another situation where sometimes farmers will dispose of their wheat, and buy futures, and unfortunately, the way we see it, they are encouraged to do that, and we think they are encouraged to do that up here a good deal.

Q.—Who encourages them? A.—The commission merchants, or the man who buys the wheat.

Q.—Why do they encourage them, to get a turn on the transaction? A.—Probably to get a turn on the transaction, and likewise he thinks he can carry the future cheaper than he can carry the cash grain, which, of couse, is true. But our experience is that this kind of transaction invariably, or in the majority of instances, leads to disaster. We had some of them in 1929 and also 1930, through Montana.

Q.—Is it a fair inference from anything happening in 1929-1930 that it is unwise in the ordinary way? A.—We think it is unwise in this way, it makes speculators out of people in a great many instances who have really no business in the speculative market.

By Mr. Commissioner Evans:

Q.—How about the holder of cash wheat, is he a speculator? A.—He is a speculator, but he knows a little better what to do with it.

Q.—He understands the mechanism better? A.—Let me give you this illustration. Back in the advance in 1925 we found one farmer in Colorado who sold his wheat and bought a future, and took 77 cents, a half a cent profit per bushel out of his future. I haven't followed him, but the history of most of these fellows is that he has lost more than that by this time, because the next time instead of buying one, he bought two.

Q.—If he held his cash grain the equal length of time in each of those two years he would have turned out about the same way? A.—Yes, of course, he carried the future at less expense than he did the cash.

By the Chairman:

Q.—Have you any other statements? A.—I was going to read a part of this statement with reference to covering. This has to do with the trading in privileges, and I might say in connection with the new legislation that we recommend, we recommend the abolishing of trading in privileges. Now, they can be made of some use, but we thought from the abuses side, they really do more harm to the market than good. What I wanted to read about is how large traders use the privilege market to get in and out of the market without buying back in the pit through an actual order, which pulls the price back up again, or selling, in either case.

"In the consideration of short selling the argument is always advanced that he who sells short must go into the pit and buy futures to cover his short position, which in turn helps prices to advance. In theory this is correct, but in actual practice it does not necessarily work out that way. Much of the short covering is accomplished through the use of privileges, often in a manner approaching manipulation. A few examples will illustrate the point in question.

"At the close of the market on the 10th of a given month, a certain trader was short 5,415,000 bushels. The closing price of the future on that date was $1.31½. The same day this trader sold bids for 500,000 bushels. The next day this trader reduced his short

interest by 1,000,000 bushels—500,000 through direct purchases and 500,000 bushels taken on bids—the price declining 1¼ cents, the future closing at $1.30¼. This short position of 4,415,000 bushels stood until the 15th of the month, when he again sold bids to the extent of 600,000 bushels. On the following trading day, Monday the 17th, his short position was reduced to 3,815,000 bushels through the 500,000 bushels taken in on bids and not through purchases in the open market. The price declined 1⅛ cents, closing at $1.29¾. This same day, the 17th, he sold bids to the extent of 1,200,000 bushels. On the following day bids were again good with the price of the future declining to $1.27½, or a net loss of 2¼ cents. This decline in price was aided by the operations of this trader, who sold 300,000 bushels in the pit. At the same time, however, with bids being good, he took 600,000 bushels on bids, thereby reducing his short interest by 300,000 bushels net, ending the day with a short position of 3,515,000 bushels.

"On the 19th of the month he sold futures to the extent of 1,200,000 bushels, increasing his short position to 4,715,000 bushels. On the same day he sold bids to the extent of 1,000,000 bushels—the market closing at $1.26¾. The following day he added to the weight already on the market by selling an additional 500,000 bushels and the price broke to a low of $1.24⅞ and closed at $1.25⅛, or a net loss of 1⅝ cents for the day. By operating through bids he reduced his short line of the previous day by 735,000 bushels, and finished the day net short 3,980,000 bushels.

"The price on the 19th was the lowest price reached on the future to date—the future having been active for nearly four months. The closing price on the 19th of $1.25⅛ compares with a price of $1.50¾—the high price little more than two months earlier. These operations took place during a month when the growers of spring wheat were in the midst of their marketing activities."

By the Chairman:

Q.—How long was the period you have given us, the total period of four months? A.—That was in four months that total prices ranged.

Q.—What was the total drop? A.—From $1.50¾ to $1.25⅛.

Q.—What year was that? A.—I can't give you the year at this time, I didn't put it in here.

Q.—What was the period for the month? A.—It was in the month of October.

Q.—There was a drop from $1.50 to $1.25 in four months. I haven't got the length of time all together. A.—About two months.

Q.—In two months' time it fell from $1.50 to $1.25? A.—Yes.

Q.—Those were the months of what? A.—Early August to October.

Q.—Have you compared that with an index number made up of tin, rubber and silver, the fall that took place in those during those two months? A.—No, I have not. I am merely giving these illustrations to show how they get in and out of the market in privileges.

Q.—I follow that, but I am very interested to see whether there is any very great difference achieved by him in the long run for what has taken place over other primary products in the same period, in a tremendous fall, whether he really did anything from the first to last. That is, take wheat over there, and whether the range of price would have been different taking into consideration silver, wool and rubber? A.—I couldn't give that answer, what the situation is there.

Q.—You have got at work at the back of all these the great world causes relating to monetary factors. It may be a man is only doing those things, but it may be he is only sliding with the times? A.—That is undoubtedly true in some cases at least.

By Mr. Commissioner Evans:

Q.—Your point is that in connection with the privileges the transfer did not take place by shouting in the pit, but was made in the books of the clearing house, but your general open position in the Exchange would be just the same when he put it through as it would have if he had bought in the pit instead of using the privileges? A.—His open position, yes.

Q.—And the general net open position of the Chicago Exchange would not be any different doing it the way he did? A.—So far as the net position in the Exchange records, no.

Q.—Your only point is that the broker did not shout it out in the pit? A.—My point in this connection is, I may be short 5 million bushels of wheat, but I want to take in at a profit, naturally. If the market doesn't move I can go into the market, on certain conditions if they are right, as some of these traders have in this case, and sell the market at the close in the last two or three minutes to artificially depress the price, and force the price through the bids, and having sold bids the previous day I have sold in the market, and yet I am able to reduce my short interest and take my profit.

By the Chairman:

Q.—I believe that could take money out of the hands of the speculators, but I am not clear that it necessarily makes any difference to the price the farmer gets for his wheat right through the year? A.—It would make this difference, if that action is taken at the close of the market, and the price is depressed 2 cents to make bids good, the price that goes to the producer that night is based on that artificially depressed price, and that is the buying price in the country the following day.

Q.—If the price would have gone in any case from $1.50 to $1.25 during that time, it is merely a difference between an inclined plane and going downstairs? A.—Yes, that is true in the long run.

By Mr. Commissioner Evans:

Q.—If it were artificially depressed it would rebound the next day, and the farmer who sold the next day would get the advantage of it? A.—It depends on how long the artificial depression continues.

By the Chairman:

Q.—You are primarily in this watching the funny little manipulations that go on between the different branches of speculation in your market. We are really interested with what finally happens to the farmer, or what would happen if there was no system. You have to have a sense of perspective not to be led away. We have divided our inclined plane into stages, made little steps of them, and it has not altered the difference in the height from the top to the bottom. It may be people who fall down have more bumps on the way, but has not altered the actual altitude. A.—I think it is one of the questions impossible to answer. We have prices that have been declining for nearly a year and a half or more. We know there are a great many conditions responsible for the depressed prices, but I don't think the question is possible of an answer, to say whether that price would have gone there regardless of the selling. In other words, grain prices, as I see grain prices, are a good deal like this: you get them down into a rut for any cause, maybe natural or artificial, and it takes a long time to get them out. I think that if you could put everybody to sleep for twenty-four hours, and advance the price of grain 25 cents, and wipe everything off the slate, the world would move on just the same, and the world wouldn't know the difference.

Q.—Artificially, you mean?

By Mr. Commissioner Evans:

Q.—Is there any surplus of grain moving out at these depressed prices into consumption? A.—Yes, we have some wheat.

Q.—Those who actually eat the bread have not taken it at the present prices? A.—They have not taken it all, but my point is they would take just as much at a 25% increase.

By the Chairman:

Q.—Is that regardless of the prices of the other products that they themselves produce? Does that assume their purchasing power in currency all over the country is unchanged? Can you assume with the same money income they would spend ten or twenty per cent more of it for bread? That is a bald statement I cannot very well entertain? A.—I think they would buy about the same quantity, certainly.

Q.—With no change in the money income? Do you suggest that merely by a wave of the pen you can make them buy ten or twenty per cent more wheat? A.—I don't mean ten or twenty per cent more wheat, but if the Liverpool price were 85 cents instead of 65 cents they would still eat just as much bread.

Q.—Without any change in the money income of the people? A.—Yes.

Q.—What is going short, tabacco, or sugar? A.—They probably would not sacrifice on the tobacco.

Q.—You leave out an important factor. You have done the magic trick on the one side, but you haven't done the same magic trick on the other. A.—Of course, bread is the cheapest thing they can get.

Q.—No, it is no cheaper in relation to the products the other people have to exchange, such as tin, wool, and rubber, it is only cheaper in relation to currency? A.—Yes.

Q.—Unless you alter correspondingly the measure of price in other things, where are you going to get your purchasing power from? A.—Of course, you have to have the purchasing power back of it.

Q.—If you are going to artificially alter the price back by 25 cents in a night, in order to take it far, you have to alter the same price for all the other commodities people exchange for it? A.—You have to get them together on a——

Q.—You are trying to alter the relativity of wheat to other products. I suggest you can't do that. You can alter it to a particular amount of currency, but you don't make purchasing power. You can only perform that miracle if you perform it over all commodities. A.—Within certain limits.

Q.—Australians might say exactly what you have said about the price of wool? A.—Well, yes.

Q.—Wool and wheat wouldn't alter in their relative purchasing power in a night because you have done it, and the Australian who wants to purchase something I am selling has got to have his purchasing power measured in money. There is a confusion of thought in thinking you can alter the price of one commodity and make the same quantity go of it, unless you alter the price of all commodities people deal in? A.—Yes, that is correct.

Q.—Every country is nursing this same fallacy. They all think if they could only work a miracle with the price of their product such as tin, wool, etc., they could all work a miracle? A.—Some of them are relatively cheaper than wheat.

Q.—Not much. If wheat were the standard of value, most of the other commodities would be within 5% in their change in the last two years? A.—Of course, I don't think there is any question. Take on the wheat situation there is just a little too much wheat in the world.

Q.—There is too much wool, too much rubber, too much everything, and yet we are all poor. I won't pursue this line, but you see your difficulty? A.—I see your difficulty, yes, sir.

Q.—Have you finished the statement? A.—Yes, I have finished that statement.

By Mr. Biggar:

Q.—Dr. Duvel, have you got any recent records relating to the futures markets since the date of your most recent printed reports? A.—I have a few charts here. These charts cover the years 1928-1929 and 1930, and show the volume of trading in Chicago, and the open commitments. The dominant futures at Chicago, Liverpool, Winnipeg and Buenos Aires.

(Chart covering wheat 1928 produced and marked EXHIBIT 42.)

(Chart covering wheat 1929 produced and marked EXHIBIT 43.)

(Chart covering wheat 1930 produced and marked EXHIBIT 44.)

Q.—I would like, Dr. Duvel, if you would indicate to the Commission the significant thing shown by these charts, perhaps by a reference to them in chronological order. A.—Of course, we have here back of 1928, at the end of April, we had a sharp advance in price up to $1.70, or a little better. That was due to weather conditions. That was the way the farmers in the southwest sold futures and took advantage of the price. At the time the harvest came in the price was away down here, so they got the advantage of that better price. I don't have the figures with me. This shows the volume of trading on these various dates. This volume is 20 million and 40 million average trading for the day. In the advanced price we have the figures of the volume of trading.

By Mr. Commissioner Evans:

Q.—The large volume in the futures market is not necessarily with low prices, but generally accompanies high prices? A.—It accompanies both. It accompanies decline or advance in price.

Q.—Merely to look at the volume of trading you could not conclude because the volume was large that the effect on price was necessarily a depressing one? A.—No, sir.

By the Chairman:

Q.—So that when the volume of trading is large, the selling is large? A.—Yes.

Q.—And when the selling is large the price is going up all the time? A.—The amount of buying is large.

Q.—You use the word buying, and I say when you talk about buying I am going to talk about selling. At the time when selling is very, very large the price is going up all the time? A.—If there are some buyers.

Q.—If there are sellers there must be buyers? A.—Yes, but we have in this lower line, at this point, this shows the open contracts, and we have an increase in open contracts, which increase there is a little more than 80 million to 120 million. The market is advancing. Where we get an advancing price in the open commitments, with advancing prices it means buyers are taking a lead in the market. Of course, sellers are coming in at the same time.

Q.—You have got a very active bull market, and a lot of reluctant bears accommodating them? A.—Accommodating them as they go up, as the market advances they will take it.

Q.—The aggregate of all futures, not only one single future? A.—Yes. From that time you have a decrease in the open commitments. It gets back pretty near where it started from at the middle of July, but the price has declined to about $1.20.

Q.—That is where the selling is greater, and the price is less? A.—That is very largely a question of liquidation during that period. We also had considerable short selling. The short selling started, coming down this side, and maintained a short position. Every day this market started to get back up here, he sold considerable quantities and it would go down.

By Mr. Commissioner Evans:

Q.—You have a very large open position there again? A.—The increase of open position comes back to 128 million bushels.

Q.—Yet the price stood still? A.—The price stayed steady. There was an accumulation. There is an interesting fact in connection with that. Using this chart in connection with it——

THE CHAIRMAN—We will mark that as an exhibit.

(Chart regarding open contracts referred to, produced and marked EXHIBIT 45.)

By the Chairman:

Q.—Open contracts monthly range, exhibit 45? A.—That is the maximum maintained for that month. We are at this point here (indicating). We have about 125 million bushels. Up to that time about 133 million was the maximum commitment we have had since 1923. It started to drop down here in July, and it increased and worked up there to 250 million.

By Mr. Commissioner Evans:

Q.—In the summer of 1929? A.—It started in the latter part of 1928 and the early part of 1929.

Q.—That was just when the Farm Board plan was proposed in the United States, was it not? I think the special Congress was called in the spring of 1929? A.—Yes.

Q.—And a very great interest as to what would be accomplished began to manifest itself about that time? A.—You will find this was the perspective of the general public in America, and that started back in 1928, when these figures came. In 1924, we had a wild bull market, and a large participation of the general public, immediately following the presidential election. A great many people apparently thought something was going to happen in 1928.

By the Chairman:

Q.—They had been listening to the speeches? A.—And they started with this market. The Grain Marketing Act was signed by the President on June 15, 1928. From that time it was participation, the price increased, and we came along to 1929, that is the maximum we had.

By Mr. Commissioner Evans:

Q.—You had your maximum open account at that time? A.—Yes.

By the Chairman:

Q.—That last Exhibit 45, is not intended merely to show the fluctuations, it is intended to show the range of price? A.—No, this does not show the range in price.

Q.—What is the thickness of the line, the varying thickness show? A.—That is the range for the month in the open, the high for the month and the low for the month.

Q.—The variation in the total open commitment? A.—Yes. If you get back here in 1929 you get this peak here in the latter part of 1929, and then comes this break in price. They accumulated this up here following the passage of the Grain Marketing Act, the large volume of trading which appears at that time was about $1.57, after which the price continued to decline, but the public continued to hold it. They gradually got out. On October 21st, this takes you along through here, and was also helped by unfavorable reports of crop conditions, especially in Canada it helped in the price movement. At this point the market collapsed, breaking nearly 12½ cents, because at that point we had a great many people in the market who had been in the market since the previous autumn. The price had declined at that time about to the point where they went into the market.

MR. COMMISSIONER EVANS—Might we say that the policy of the United States has been practically to work the miracle, to which reference has been made and with somewhat indifferent success, of fixing a price higher than the world level? A.—That is what we are trying to do, to hold the price to level from 1929. We find also in 1929, heavy selling, but the public, when it comes to the latter part of 1929, finds the market decreased.

THE CHAIRMAN—Is it better to have held or never to have held at all? A.—Yes, hoping eventually they will not lose, but when it comes to this market decline we had a short advance of price. The price continued to decline. It is a general world condition. The price level was going all the way down. As some of the people in the United States would indicate what they wanted to do when the price got down, that is the price of corn, that the price of wheat had to advance.

Q.—That is your idea of paradise? A.—You cannot tell, whether they are all going up or going down, and that is what all commodities have been doing, but when we reached this price, 90 cents, we had practically every man in the market, and there were about 180 millions on the wrong side, and when you get that it is very dangerous.

THE CHAIRMAN—Our time is limited, we have had the long innings, but the small innings.

MR. BIGGAR—Speaking of this long term question as to the effect of profits by the producer generally over a series of years, but not with regard to particular purchasers that sell by day, what if anything is the percentage of standard? A.—It is difficult to give any definite price. We do know that price at the back of the producers is based on the future. They move together.

Q.—But speaking of a series of years and the whole bodies of producers, what if any per cent of standard is there? A.—I never found one to my own satisfaction.

Q.—I can only address myself to the narrower range, but if the Commission thinks it is necessary to direct oneself to that——

THE CHAIRMAN—In so far as the narrow range can affect the producers in the long run, I think you may get the farmer in on a low point one day and a high one the next day, unless all the oscillations work against the farmer. We are only interested in them as far as they reflect right back on the farmer and affects the amount of money he receives for his wheat.

MR. BIGGAR—The view I had taken is the evidence taken before the Commission is against the farmer.

THE CHAIRMAN—It would affect the discrimination between the farmers.

MR. COMMISSIONER BROWN—A man hit on a certain day would not recover the following day, but some one might? A.—Yes

THE CHAIRMAN—You don't get the concensus of what they all do.

MR. BIGGAR—You cannot get the questions because you have no basis of percentage. Was it greater or less than it would have been without the futures market?

MR. COMMISSIONER EVANS—Dr. Duvel says there is none.

MR. BIGGAR—I would direct ourselves on the other question which it seems has been acutely debated before the Commission.

MR. COMMISSIONER BROWN—If these major portions depressed the price for even a limited period of time while the farmer is forced to market his grain, then there is only one inference to be drawn which is detrimental.

MR. BIGGAR—Yes, but I am only proposing to direct any question I have to the Doctor to the narrower points.

THE CHAIRMAN—I hope you are limited to a few questions because I think we know where we are on that.

By Mr. Biggar:

Q.—There are two or three things, have you found that there is any effect from day to day on the price of the Exchange by reason of trading on your own account by members of the commission houses? A.—I don't know that we can hook it up directly with the commission houses. I might say in that connection it is one of the things we have felt as a result of our studies that members of commission houses have really no business to speculate in the market they are handling orders for customers.

Q.—That has been proposed? A.—That has been one of our contentions both as to commission houses and brokers to operate on the floor handling orders for customers.

Q.—For what reason? A.—The contention is you cannot very well execute orders for customers if at the same time you are interested. It involves the question of taking into the brokers own account of customers or scalping the customers orders and gives the members of the commission house advantage over traders.

By the Chairman:

Q.—Are you dealing with the customer who gives any advice to his clients? A.—Yes.

Q.—Have you thought it is well for people who advise sometimes to go hand in hand with them? A.—Yes, we find that sometimes, that sometimes they go the other way.

Q.—Go in with them according to their advice? A.—Sometimes go against them and sometimes with them.

MR. BIGGAR—Would you compel him by law to do so? A.—No, I would not do that. If I had my way I would compel him by law not to.

Q.—With regard to hedging in the United States, are there any areas in the United States in which some of the elevator companies have been widely hedging or in competition with elevator companies which do not? A.—Yes, I think it is true. Some will hedge in the same town and some will not.

Q.—Can you tell me whether there is any difference between the price paid to the producer from day to day by the elevator companies that are not going to hedge, and those who buy grain who are not going to hedge? A.—They get the same price.

MR. COMMISSIONER EVANS—You could not give us any specific example of any particular place where we might check up? A.—We have made a study of hedging. We have a bulletin of the department which is now in press. Unfortunately I cannot furnish the figures, but when it comes off the press, I will be glad to furnish it to the Commission.

MR. BIGGAR—You have given us one instance in which a trader whose operations you followed was on both sides of the market at the same time, the put and calls case you gave us; did your investigations indicate that a trader may be on the same market at the same time quite independent of any puts and calls or privileges? A.—You may find that it may be long and short in one house, buying and selling at one place.

MR. COMMISSIONER EVANS—In the same future? A.—Yes.

MR. BIGGAR—Did you find an occasion in which some trader is dealing through a number of houses? A.—We find most of the large traders deal through a considerable number of houses and they are scattered in the pit. There may be a dozen different houses.

Q.—And the reason for that is what? A.—We have two reasons. They naturally distribute their trade in part because they do not want it in one place. If they have a friend in different houses they likewise distribute the trade sometimes in amounts of five thousand bushels so they do not have to report it to the Government.

MR. COMMISSIONER EVANS—I am rather interested in that—being long and short in the same future at the same time. Why would a man do that? He would have to put up two margins, and he would only have a small net position? A.—He may not have any net position. He might buy a million through one house and sell it through another house and the market be even, but at the same time he might have had an important influence on the price.

THE CHAIRMAN—What's the object? Cannot he make up his mind? A.—His object is to move the price.

MR. COMMISSIONER BROWN—Move the price at two different times in the same day? A.—Yes.

MR. BIGGAR—You might tell us how it is he manages to manipulate prices by carrying on his operations that day? A.—It is easy enough for a large trader to give an order to sell a half a million bushels at the market price. It may be easy enough to give another order to buy a half a million bushels, but don't press it. The seller is selling at eighty cents, seventy-nine and three-quarter cents, and the other fellow is taking it.

THE CHAIRMAN—He gives them different velocities? A.—Yes. I will turn it round the other way. He wants the market to advance and it is standing up in price and the other man is letting him have it. If it comes right at the close of the market he has advanced the price one cent a bushel, and as far as he is concerned he is where he started usually. When he has that operation he has a long line back of it on which he hopes to take profit if he can get the market moving, just like as if he was covering through a privilege, he may want to force the market up. He may want to force the market up so his calls are good where he can get out of the market and when it has not reached his short line, or he may want to advance the market. Large traders when they want to handle the market will put in an order to sell a half a million bushels on a market. The market price is depressed three-quarters of a cent while selling that half million bushels, but it immediately comes right back again. The chances are he will close out that trade before the end of the day, because the technical position is not ready to move.

MR. COMMISSIONER EVANS—It is a pretty good game to play if you have money enough? A.—Sometimes, if you can be right.

Q.—It is not the 500,000 bushels but being right that does it? A.—He has to have a technical position in the market. If you can get in enough to depress the price, to weaken it, the bottom may drop out.

Q.—It is not the 500,000 bushels that does it? There are lots of times when it cannot do it? A.—Yes, and sometimes 200,000 will do it.

THE CHAIRMAN—It depends more on the activities of traders and losses of other speculators? A.—Someone has to lose it.

MR. BIGGAR—Just on that long point; might that occur at a time in the course of the market when the results were affected, the prices that were sent out on the following day and were paid to the producrs? A.—That is about the time it would occur. Transactions like that usually occur at the close of the market.

MR. COMMISSIONER EVANS—Do the markets more often come down or up? A.—It is about fifty-fifty.

Q.—Sometimes they cannot do it? A.—It may be the other way. It does not always do it.

MR. BIGGAR—I gather from what you say that the price of the exchange through whom these transactions were carried out would be quite ignorant of the fact that this operator was on both sides of the market at the same time? A.—No, they would have no way of knowing.

Q.—And as a matter of fact, apart from the enquiries of the character of those you carry out, is there any way of knowing? A.—No, unless you have access to the records.

Q.—Under such a statute as yours? A.—Yes, somewhat similar.

MR. COMMISSIONER EVANS—How do you know under your system? Do you some months make out a report? A.—As far as the records of the exchange, of course, they do not know.

Q.—They do not know from your records unless you make a special study of it and put some letter as the total of the traders? A.—No.

MR. BIGGAR—Except what we know about it, it would have been denied altogether if it was possible, if it had not been for such an investigation as the witness is able to carryout. You spoke about the effects of your daily reports in minimizing rumours, minimizing the effect of rumours, could you give us any particular instance of that? A.—we followed that up, of course. As this comes up we usually take it up with the business Conduct Committee and discuss those rumours and follow them through, and questions of that character are coming up all the time. I don't mean to say every day but at irregular intervals, but when we think there is something to influence the market——. Take an illustration of this kind: In Chicago we had the reports of bank failures in Italy. It was a time when merchants had a lot of grain on the sea and everybody was very much disturbed, and did not know what to do with the wheat, and the price broke very severely that day. We checked that information back to Italy through the State Department and we found that it was partially true, that there were bank failures in Italy, and it involved three loads of wheat. 24,000 bushels.

By Mr. Commissioner Evans:

Q.—There was a lot of United States wheat on the seas unsold? A.—Yes.

Q.—From the Pacific Coast? A.—Both the Pacific Coast and the Atlantic Coast.

Q.—Unhedged? A.—I don't know whether it was unhedged or not. I could not say.

Q.—If it was hedged, it would not have affected that particular wheat? A.—It would have affected that particular wheat if it had gone to Italy and was in the Mediterranean somewhere with no place to go.

By the Chairman:

Q.—Does the market react to every whisper? A.—Yes

Q.—It is sensitive to all sorts of little things? A.—All sorts of little things. We had another case when it was a dry season in the Southwest and there were complaints that we were not going to have any crop from Oklahoma and Texas. There came a wire one day "Widely scattered showers in Texas". They thought, of course there was going to be plenty of rain and the market closed down two cents. We took the matter up with the Weather Bureau, and we found that the showers were so widely scattered that there was no Weather Bureau had any record of them at all.

By Mr. Biggar:

Q.—I was speaking of the effects of your daily reports, the ones you get at eleven o'clock every morning with regard to rumours on the subject of operations of particular operators. Can you give us an instance of that? A.—Well, we sometimes get a case like that. They say certain operators are buying or selling in the market. That has an influence on the price. I think I mentioned one of those cases this morning, where it indicated that a certain trader was liquidating his long line, because it was coming through a commission house which everybody knew was the commission house through which that trader put his orders. As a matter of fact, the order was placed in that commission house by another trader who was short in that market.

By Mr. Commissioner Evans:

Q.—Would that individual have cause for an action for libel for the use of his name? A.—It is just a rumour that gets around that such and such trader is selling something.

Q.—But if it becomes public, surely he would have a right to protect himself against such misuse of his name? A.—It was not hurting that individual. He was able to take care of himself. But it influenced the action of a good many small traders.

By Mr. Biggar:

Q.—Can you tell us what are the proposed changes or amendments to the law in the United States, which as a result of your experience over there during the last eight or nine years, are considered necessary now by your administration? A.—We had some bills in Congress last year. I might say those bills contain some provisions that we were not very enthusiastic about and some we thought should be enacted. One of those provisions was related to privileges.

Q.—That is, the abolition of privileges? A.—The abolition of privileges, which were really deleted, intended to be deleted by Congress in the taxing provisions in futures trading. Likewise in connection with trading by brokers, or brokers trading for their own account, our contention being that a broker should be a broker. He cannot execute always without temptation orders for customers, without taking advantage of it. It may not be very large and yet it is a factor in the price and to that individual customer it may be a considerable item. Likewise, we felt that margin money should be protected. In other words there is no excuse, as far as we can see, for a commission house that handles orders for customers, to go into bankruptcy. We find sometimes that they take a great many of their customers with them, with all the distress that comes with it.

By Mr. Commissioner Evans:

Q.—Cannot your Clearing House look after the solvency of firms that deal there? A.—The Clearing House can look after it, as far as the Clearing House is concerned in its own interests, but the Clearing House has no interest in what is happening to the customers.

Q.—But if the Clearing House is looking after the trades, won't all those trades be carried out? A.—The Clearing House looks after the trade, but here is an institution that may have customers to the extent of 5,000,000 bushels on the long side margined by ten cents a bushel. It may likewise have customers on the short side to the extent of 5,000,000 bushels, every one of them margined at ten cents a bushel. I don't think that the Clearing House——

MR. PITBLADO—Surely, my learned friend knows the points which he is developing here are not the subject of this investigation. If you are going to consider the matter of brokers going bankrupt, we will never get through this investigation. He asks the question—What recommendation was made to Congress in order to improve the position of those who trade in the Chicago market. If we go into that I submit we will never finish this investigation. If that has to be followed up along the line that this witness is going, I don't see how all the witnesses who are to come before you will get their evidence in.

THE CHAIRMAN—I quite agree, but we have developed a number of things which have arisen from the experience of the witness and I take it that Mr. Biggar's question was just to ask "What are you going to do about it?" The only question is, can they do anything about it and is it proposed to do anything further?

By Mr. Biggar:

Q.—There is another point in connection with the amendments: Are you proposing to make any limitation along the lines? A.—We propose the limitation fixed by Congress of 2,000,000 bushels for purely speculative purposes, with authority in the Secretary of Agriculture to reduce that, if he sees fit.

Q.—You might tell us how generally you regard the effect of the present legislation and the proposed legislation is likely to be, so far as it affects the price, paid through the producer? A.—Well, that is a pretty hard question. We do feel that it will help in the long run the price to the producer, or at least put him in a position of being better

satisfied. The opposition to this whole futures market, I might say, while we believe in the principle involved in futures trading, it has been specifically stated by the Chamber of Commerce in 1925, and again in 1928, through referendum, that there are some evils in the futures trade which can be corrected. That is our position. We would like to correct them. If the futures trade is right, as we believe it to be, let us make it better so that our farmers in the United States and Canada may know it, know what is going on, understand it, and have confidence in it, so that when you go to them they can say: "We understand what is doing in our market and we think we have the best marketing system in the world," that may be an ideal which we cannot reach.

By the Chairman:

Q.—Excuse me interrupting you. You may have introduced legislation for three reasons: To protect various kinds of speculators against each other; it may be in the interests of public psychology and social morality; it may be to give the farmers a better price. Now, I am not interested in the first two at all. We have heard the fact and we don't want any developments at all. If you have anything that is being specifically put in to give the farmer a better price, we will hear it. A.—We think it will help. It is a question that is impossible of proof, even if you do it. Supposing we had that legislation now and prices advanced ten or twenty cents. Now you could not say it was due to the legislation, because we have prices changing for lots of reasons. There would be no way of convincing or bringing out a proof that that was the result of the legislation.

By Mr. Biggar:

Q.—Quite so, so far as oscillations are concerned? A.—In that case, it will have a very material effect.

By Mr. Sweatman:

Q.—It is not your opinion that dealing in privileges injuriously affects hedging operations? A.—Oh, no, unless they are used artificially to move prices either up or down at the close of the market. Otherwise, they would have no influence on hedging operations.

Q.—Your real objection is that they are part of manipulation. A.—Part of manipulation.

By the Chairman:

Q.—Cannot privilege be also operated on the principle of the hedger not wishing to run the risk of being carried overnight? A.—Yes, quite so. We find two classes using privileges, the large speculator, and the small one who has not money enough to trade in the future.

By Mr. Pitblado:

Q.—Your market in Chicago is largely a speculative market? A.—Well, I think as far as volume is concerned, yes.

Q.—I understand that is what you have been telling us, that it is largely a speculative market; in fact, the largest speculative grain market in the world; is that correct? A.—Yes, I think I should add likewise that it is the largest hedging market in the world.

Q.—Yes, I am coming to that. And through that market, the speculative market in Chicago, you have attracted large speculative traders? A.—That is right.

Q.—You have been telling us and reading from your reports about what I might call the domination by big traders at times of the market; that is correct? A.—That is right.

Q.—You can pick five, six, seven, or eight men in Chicago that you know are big traders on the speculative market; I am correct about that? A.—On the Chicago market, not all Chicago men.

Q.—I don't mean Chicago men. Don't misunderstand me. I mean on the Chicago market? A.—Yes.

Q.—So you know who the big traders are? A.—Yes.

Q.—You told us of one trader who, if I correctly remember, had a long line of twenty-three and a half millions; you recollect that? A.—Two traders—short.

Q.—Well, they had an open line, let me put it that way, an open line of twenty-three and a half million? A.—Yes.

Q.—An open line of 32.6% of the open futures trade? A.—Per cent, yes.

Q.—And you deduced these results that you set out in your report covering a number of years, by reason of the operation on that market, that speculative market, by traders, traders in a large way, but not so very many of them in number; am I correct about that? A.—Yes, I think that is right.

Q.—Now then, your market in Chicago, this speculative market, is dealing—you know, of course, that Winnipeg is the largest cash grain market in the world, do you not? A.—Yes, I guess that is right.

Q.—I have heard that stated many times. Now let us get something else about the market conditions. Have you heard of any domination of this market, that is the Winnipeg market, by a few big traders? A.—Well, of course, we have no access to the Winnipeg records and I cannot say.

Q.—I am asking you if you have heard of it. Have you heard of any domination of the Winnipeg futures market by a few big traders? A.—No, I have not.

Q.—Evidence has been given here, Doctor Duvel, that so far as those connected with the trade are concerned they have not heard or known or seen anything of such domina-

tion; what would you say as to that? A.—I must answer that by saying that we found that same situation in Chicago before we had access to the records.

Q.—In other words, you are full of suspicion; is that what you mean? A.—You might call it suspicion. My work is carried along this line and I am only willing to draw conclusions when I have facts.

Q.—At any rate, you are not willing to give these gentlemen who appeared before the Commission the benefit of being truthful in their statements? A.—I think they may be truthful in their statements. Let me answer that in a little side way. We had in 1925 a very active market. It was generally contended in Chicago and our Federal Government was very severely criticised because we permitted an individual trader to accumulate a long line which they said was 50,000,000, or 70,000,000 bushels—and in one case it went as high as 100,000,000. They criticised us severely for allowing that to be accomplished during the advance in price. Now, we were in a position that we could not say anything, whether the man was in the market or not, because we were forbidden under our law to make known an individual trader when it influenced his position in the market. What comes after that? The men in the Chicago Board of Trade were absolutely honest in their convictions and they believed all this. I don't think they were lying about it at all. Some time after that one of the leading members of the Board came to me, some six months after that, and again criticised me very severely for permitting one trader to accumulate 70,000,000 bushels of long wheat.

Q.—And he had done that, had he? A.—Just a moment. I said "That is water that has passed over the dam. I will tell you what he had, he had just about ten per cent of that." And that is about as near true as most of the gossip you hear. That was my answer to him. So you cannot tell. There isn't anybody knows until we get the record. In Chicago, in 1923, the Board of Trade did not know the volume of trade, did not know the open for a minute. The information was not available.

Q.—Yes, but the manager of the Clearing House? A.—He knows the volume of trade and that is all.

Q.—And he knows the open line? A.—No, he does not know the open line.

Q.—Are they not on his books? A.—No, sir, only the net.

Q.—Are not the open lines of each customer in the books of the Clearing House in Chicago? A.—No, sir.

Q.—Well, they are here. A.—Well, they may be here, but I doubt it very much.

Q.—We have had the manager of the Clearing House before the Commission. A.—If he says they are open they may be.

THE CHAIRMAN—It is possible that the witness in giving evidence here as to what is happening in Chicago, is giving something that has no relation to what is happening in Winnipeg. If he goes on to say that he found that statements made in good faith in Chicago did not always turn out to be true after the institution of his enquiry, that does not necessarily have to be the case in Winnipeg.

MR. PITBLADO—That is all that I am suggesting.

By the Chairman:

Q.—Would you agree with that summary? A.—I think so.

Q.—We did not call you here to give evidence about Winnipeg. We want your evidence about Chicago, and we will draw our own conclusions as to how far it may be parallel, analagous, illustrative, characteristic. A.—Except that I do think the Commission should satisfy itself whether the Clearing House here in Winnipeg has the aggregate of the long net line, likewise the aggregate of the short end.

By Mr. Pitblado:

Q.—Just passing along there, I want to see some other difference between Chicago and Winnipeg. You have given some about the speculative market in Chicago. You refer in this little book, this Grain Futures Act of 1923, which you have put in as an exhibit—you refer to the Olson case; isn't that the name of the case set at Page 16? A.—Yes, I think so.

Q.—I notice in that that the Supreme Court of the United States in its judgment at Page 16 of this book, says this, speaking of the evidence that had been given before the Congressional Committee: "Much evidence was adduced before the Congressional Committee that the sales of futures on the Chicago Board dominated the prices of wheat in this country and the world." Do you recollect that statement? A.—I recollect that statement.

Q.—That is in the Supreme Court judgment here. Do you agree with that view? A.—That is the statement that the evidence was presented before the Congress when the bill was being considered?

Q.—Do you agree with this view, on which apparently the Supreme Court based a portion of its reasoning? Do you agree with this view? A.—That is partially true at times, and at times I think not.

Q.—At any rate, in this judgment the statement is made there that much evidence was adduced before the Congressional Committee that the sales of futures on the Chicago Board dominated the prices of wheat in this country and the world. Do you agree with that or not.

THE CHAIRMAN—Does he agree that the evidence was given, or does he agree with the statement?

By Mr. Pitblado:

Q.—Do you agree with that statement? A.—I say that works both ways. At times price movement at Chicago dominates us, and at times price movement in Liverpool dominates us.

Q.—Then you don't agree with the gentleman who gave evidence before that committee? A.—I don't know who gave that evidence.

Q.—I don't know either, but it is in the judgment you handed in. Do you think today that the prices in Chicago market dominate the prices, not only in the United States but in the world? A.—Today, no.

Q.—You don't agree with that? A.—Not on present day conditions.

Q.—Then, coming back to the business in Chicago, as I recollect, there is about one-sixth of the crop of the United States that goes out for export? A.—Normally, yes.

Q.—And about from seventy to seventy-five per cent of the crop of Western Canada goes for export, and there are differences in that respect that makes a difference in conditions, does it not? A.—That makes a difference in the market, yes.

Q.—Then your government has a tariff on wheat going from here to the United States; you know that? A.—Yes.

Q.—Then there is a difference in the storage capacity when it comes here. That is, the storage capacity, public storage capacity in Chicago, is about seventeen million bushels, I think you gave it? A.—That is as far as public elevators are concerned.

Q.—And I think you agreed with Mr. Evans when he told you that our storage capacity at the head of the lakes, at Fort William and Port Arthur, was about 90,000,000 bushels, I think? A.—If you take that comparison, you should compare Chicago with about 58,000,000. That is about the total storage in Chicago.

Q.—Well, let us take it up to 58,000,000. You have very much more trade in Chicago than we have in Winnipeg? A.—That is right.

Q.—And are all these matters that I have mentioned to you matters that should be taken into consideration when you consider the Winnipeg futures market? A.—They are factors in the market. Of course, the question of storage is not a very great factor, because futures are not traded in with the idea of accepting delivery.

Q.—Well, I am coming back to that in a minute. I say, are those all matters that could be taken into consideration? A.—Oh, yes, sure.

Q.—If you want to take into consideration the Winnipeg futures market and regulations, those are fair things to take into consideration, are they not? A.—I think that is right.

Q.—Now, I am coming back to some of the matters of which you gave evidence a little earlier. First, about that information that is now given out as to the volume of trade and open commitments; you will remember speaking about that? A.—Yes, sir.

Q.—And that, I am going to suggest to you, is of great interest to traders now? A.—Well, I don't think they would like to stop it.

Q.—Exactly. The speculators, traders, big speculators and small speculators, are people who like to see that? A.—Hedgers and others, yes.

Q.—Hedgers and others? A.—Yes.

Q.—And they then wouldn't like to see that taken away? A.—I don't think so.

Q.—Then another thing that you mentioned, and I took it down here, was that after all—see if I am right in this—after all, what counts in this trading in the futures market are the open contracts, that it is the figures on open contracts that really tell what has taken place on the market? A.—I mean they give you an index of what is taking place on the market, the large public volume of trade.

Q.—I took it down from your statement, that it is those figures which tell what really is taking place, that is at the end of the day you can look and see the open commitments, that is the story of the day? A.—Yes, they tell you whether your advance in price has been the result of short covering, or new buying.

Q.—Or whether it has anything to do with traders changing between themselves. If there is no difference in the open commitments, if at the end of the day you find the open commitments are just the same as at the beginning, what has happened on that day on the market has not amounted to very much? A.—As a rule not very important.

Q.—Isn't that really the idea you had in mind when you mention that it is the figures on the open contracts that really tell the story? A.—It gives the people in the market an idea as to what is actually doing, as to whether there is a demand in the market, or whether that demand is diminishing.

Q.—Do you consider that the quantity of wheat that is available for delivery has any important bearing as to the open contracts that are existing, particularly as the delivery month draws near? A.—The quantity available for delivery?

Q.—Yes? A.—Well, right at the month, yes, at the end of the month.

Q.—And as the end of the delivery month draws near, a most important factor? A.—Especially at the end of the month.

Q.—That is the end of the month when delivery has to be made? A.—Yes.

Q.—And that is always an important factor, is it not? A.—That is always an important factor.

Q.—Now, I come to one other matter, I am hurrying very fast because I do not want to take the time of the Commission, but I want to ask you this one question. You gave some evidence about the farmer selling on a bulge, and the Chairman asked you what you meant by a bulge, and I think you instanced the Kansas farmer? A.—A group of Kansas and Oklahoma farmers.

Q.—Who sold out at $1.60 before his crop was cut? A.—I think it was before harvest they sold.

Q.—I was asking about the farmer selling on the bulge, Mr. Chairman. In connection with that these farmers sold, as I understood from you? A.—Sold a future.

Q.—Used the futures market to sell before their crop was harvested? A.—Yes.

Q.—And you said in connection with that "we rather encouraged that"? A.—When they get it where the price is satisfactory, if they think their crop has reached a point where they feel reasonably sure they are coming through with the crop.

Q.—Who are "we"? You say "we encourage that." A.—From the standpoint of the Department. We haven't gone out and broadcasted it, but if they ask our advice we give it, that is the position we take in it.

Q.—In other words, that the Department of Agriculture of the United States rather encourages a farmer who is growing wheat to use the futures market, so as to sell his wheat before his crop is cut, if he is satisfied with the price? A.—Yes, if he is satisfied with the price.

THE CHAIRMAN—Thank you very much, Doctor. You have had a long sitting, and you have helped us a great deal.

The Commission will have a lot of work to do tomorrow afternoon before train time, and therefore we shall sit for public hearing of witnesses in the morning, but we are prepared to adjourn at 5 and come back at half past seven this evening if you wish, or eight o'clock.

MR. SWEATMAN—I think if we want to be sure of getting through we had better do that.

THE CHAIRMAN—Then we will adjourn to a quarter to eight.

THE CHAIRMAN—Will you help us now by calling the next witness?

MR. SWEATMAN—Dr. Taylor.

DR. ALONZO TAYLOR (called).

THE CHAIRMAN—We are much obliged to you for coming.

By Mr. Pitblado:

Q.—I will ask him his qualifications, and then he has a written memorandum he would like to follow. Dr. Taylor, you reside at Stanford University in California? A.—Yes.

Q.—And you are one of its professors? A.—Yes.

Q.—You do no undergraduate instruction, but solely post-graduate? A.—Yes.

Q.—And I understand you are a director in the institute called the "Food Research Institute," and that is located at your university? A.—Yes, it is.

Q.—That I believe is a special department of Stanford University that was established some ten years ago? A.—It is.

Q.—And if I remember correctly, established jointly with the Carnegie Institute of New York and the trustees of Stanford University? A.—That is correct.

Q.—What is the field of the investigation? A.—The investigation of the food supply in any national way that appeals to its directors as promising.

Q.—There are three directors? A.—Yes.

Q.—Yourself? A.—Yes.

Q.—And the others? A.—C. L. Osborg, who was for many years Chief of the Bureau of Chemistry for the United States Department of Agriculture, and J. S. Davis, who is at present on leave as Chief Economist of the Federal Farm Board at Washington.

Q.—And you publish, I believe, a pamphlet called "Wheat Studies"? A.—Yes, it contains twelve numbers a year, and is in its seventh year.

Q.—What is the scope of these wheat studies, Dr. Taylor? A.—It reviews the previous crop year and its articles are devoted to any topic we wish to investigate, usually of an international character.

Q.—And in order to carry on that institute you have a regular staff, a subordinate staff? A.—Yes, we have.

Q.—Just to mention it, you are not confined to wheat, I understand? A.—No, we publish an "Oil and Fat" series as well.

Q.—Are your investigations devoted entirely to treating of economics? A.—No.

Q.—What others? A.—For example, any preparation prepared by a German or a Russian in relation to a wheat corner in Russia, one in India, and one on the wheat cor-

ner in Canada, but to a very large extent they are connected with problems of international and national trade relating to wheat.

Q.—Your studies and your articles have not been in connection with any trade organization of any kind? A.—None whatsoever.

Q.—They are purely what I may call a student standpoint? A.—Purely from the scientific standpoint, published by the university press.

Q.—I want to touch upon your own qualifications very briefly, when you entered the Food Research Institute, what prior to that had been your work, your special work? A.—I was, before the war, biological chemist engaged largely in the studies of natural nutrition, and during the war I was a member of the War Trade Board.

Q.—Your university? A.—Pennsylvania, and during the war I was in charge of the American Programme of the Food Block, and after the war I made surveys in Europe, on which the American Relief was based, and I went from the government service in 1921 to that Institute.

Q.—Have you under your present assignment studied economic nutrition? A.—Some of our staff are pure chemists and some pure economists and one a geographer, and we pool our energies and whatever talents we possess and attempt to then secure coordination of those different viewpoints.

Q.—I have filed before the Commission as Exhibit No. 2, Wheat Studies of the Food Research Institute, Feb. 1931, containing an article on "Speculation, Short Selling, and the Price of Wheat." I understand that was your work? A.—I wrote that.

Q.—Did it express your views? A.—Yes.

Q.—Not having any relation to this Commission at all, you knew nothing about that at that time? A.—That was published over two months ago, written three months ago.

THE CHAIRMAN—We have this as an exhibit. As a matter of fact I was acquainted with it before I knew anything about this Commission and then after that I read it on ship-board. On ship-board I devoted my time mostly to this and Edgar Wallace, but needless to say I preferred yours. I only say that you can just touch upon things. You need not labor or emphasize them unduly, because we are all now students of this document. I will have occasion to take you up on one or two points later.

MR. PITBLADO—Dr. Taylor told me it would not be long.

THE CHAIRMAN—Very well.

DR. ALONZO TAYLOR (reading)—Trading in futures on established commodity exchanges is in its present form the development of the last half century. Broadly considered it is a development of trading on spot and forward markets, from time contracts. Trading in grain futures developed in the United States largely under commercial necessity of maintaining the continuous flow of grains seasonably produced, under the particular circumstances of time and space involved in navigation on the Great Lakes. In a comparable sense the development of futures trading in grains over the world has been related also to major circumstances of time and space—the harvesting of grain in different regions and in different months, and the separation of surplus producing and import consuming countries by ocean waters. Trading in grain futures in North America has been especially perfected by the establishment of governmental grades.

Trading in wheat futures on established Exchanges is essentially a mechanism for the international distribution of wheat. A country self-contained in respect of wheat, of which Spain furnishes a good illustration, finds little use for futures trading. Countries actively engaged in the export of wheat surpluses and those actively engaged in the import of wheat to cover requirments, are those which make intensive and extensive use of futures trading. The international mechanism is not yet completed. There is no trading in wheat futures on Grain Exchanges in Australia or India. There is trading in wheat futures in Argentina but the market has serious limitations inherent in the present status of the country. There is no trading in wheat futures in Russia. Exporters from India, Australia and Russia, also from Argentina, often hedge on the Exchanges in North America and in Liverpool. There are three Exchanges trading in futures of Canadian wheat—Winnipeg, Vancouver and New York. There are three prominent Exchanges in the United States (together with numerous subsidiary Exchanges)—Chicago, Minneapolis, Kansas City. In Europe is the one outstanding Exchange in Liverpool, and several smaller but still important Exchanges in several cities of Western Europe. For practical purposes the Exchanges in Chicago, Winnipeg, Liverpool and Buenos Aires comprise the most important and significant localizations of futures trading in wheat.

The various wheat futures trading Exchanges of the world ought to be regarded as members of a common system: they are international rather than national in the broad view. Operations on these various Exchanges are inter-related and inter-dependent, they represent points of connection on a liquid world market. It is to be regarded as a significant defect of the present system that facilities for trading in wheat futures on established Exchanges are lacking in Australia. Also despite the irregularity of Asiatic imports of wheat, it is not to be doubted that if it were technically feasible the establishment of a Grain Exchange at a central point in Asia, such as Hong Kong, would be an advantage to exporting countries.

According to this view of Grain Exchanges and trading in wheat futures as parts of an international system of marketing, the interests of surplus producing countries are quite as important as those of importing deficiency countries. This system is exceedingly complex, is surrounded by many cross currents and exposed to abuses. It is, however,

impressively superior to the system of cash merchandising of wheat without futures—either by auctions, by exporters' disposition of supplies in importing countries or by importers' collection of supplies in exporting countries.

Trading in wheat futures on established Exchanges tends to the accomplishment, more or less perfectly or imperfectly according to circumstances, of the following objectives. A prompt and sensitive price registration is effected. A forum is established for static reports and dynamic opinions. Risk in every stage from grower to household is lowered and evaded, an insurance is provided to merchants and processors through hedging. The carrying of current stocks and of carryovers from one crop year to another is facilitated. Expensive and multifarious negotiations become unnecessary. A basis is provided for bank credit. A background is furnished to the cash market. The margin between producers' price and consumers' price is narrowed. A basis is provided for forecasting in the interest both of producers and consumers.

Futures trading tends to smooth the inter-seasonal wheat price curve. It tends also to smooth the intra-seasonal wheat price curve. With the respect to short term price fluctuations, especially day by day fluctuations, futures trading does not tend necessarily to minimize the variations. The detached commentator observing the wheat market since the war finds instances in which futures trading seems to have provoked rather than minimized daily price variations. Whenever a short term variation in futures prices is not closely followed by corresponding movement in cash prices, the millers and merchants find the protection of hedging reduced, and the American milling journals since the war have repeatedly complained of untoward fluctuations in wheat futures which they regard as due to abuse of speculation, and injurious to their interests as hedgers.

The insurance against price fluctuations afforded by hedging is not complete, since the concordance of cash prices with futures prices varies from time to time and under some circumstances to a considerable extent. Without entering into discussion of whether futures prices lead cash prices or cash prices lead futures prices, it is to be remarked that significant deviation in height or lag in time tends to carry with it a reduction of the insurance of hedging. Since hedging is one of the principal objectives of the system, it is proper to judge futures trading to some extent by the completeness with which it fulfills this function. At the same time it is to be observed that under occasional circumstances hedgers impose upon the speculative market a weight of trading which it is difficult for the existing volume of futures trading to support This is particularly true in the United States where the hedging predominates in the outlying markets while the speculator predominates in Chicago. It is this circumstance which has induced some grain traders to request such change in delivery on futures contract as would enable a sale in any one market to be completed by delivery in any other market, a suggestion which has been consistently opposed by cash grain dealers and especially by millers.

If one will contrast the investigations into futures trading in importing and exporting countries—for example, in Great Britain and in North America—it becomes clear that with the acceptance of the view that the system of futures trading narrows the spread between producer and consumer, the question arises, to whom does the saving, the gain accrue? Consumers in Europe have feared that (apart from the participating traders) such gain would accrue to producers. Producers the world over have feared that (apart from the participating traders) such gain would accrue to the consumers. In each instance the fear is felt that most of the gain would accrue to the intermediaries. When, however, one contrasts the range between consumers' price and producers' price with the inclusive cost of taking the wheat from the producer and delivering in to the consumer in the foreign country, it becomes clear that the gain represented in narrowing the spread between producer and consumer must have accrued largely to producer or consumer or to both. Economic reasoning on incident enters here. We take it that the orthodox answer would be that the gain is always divided between the producer and the consumer, but not equally, and not in the same proportions from year to year. That is, when the world wheat market bears the complexion of a sellers' market, producers are likely to receive the larger proportion of the gain; when the market has the complexion of a buyers' market, consumers are likely to receive the larger proportion.

No mathematical measure of the utility of futures trading has been formulated. There is no experience of a country under comparable conditions operating with the system and without the system. The experience of Germany in the nineties is too fragmentary to be conclusive. The belief in the utility of futures trading rests upon the broad experience in international trade with the large number of raw materials now marketed under this system. Some of these are seasonably produced and continuously consumed, but others are continuously produced and continuously consumed. At the same time it is noteworthy that the adaptation of futures trading has been resisted in the case of a number of important commodities. As an illustration wool may be contrasted with silk and cotton—without undertaking to enter into a consideration of wherein the difference lies. Despite the circumstances that the system has not been universally applied, it seems clear that where applied the net effect is in the direction of improvement of producers' prices.

By the Chairman:

Q.—You have been true to your promise, Dr. Taylor, and you have given us some quite fresh matter that is not contained in your printed statement and very interesting too. I want to put to you a point that is a direct corollary to the statement you have

just made. You have given us your view as to how the benefit of a new change in the cost along the whole line of production will sometimes go forward to the consumer and sometimes backward on the producer. That argument, however, from an economic point of view, rests upon the world price being settled by any conditions. Supposing you had all the rest of the world dealing with Liverpool, which we will take as a typical world price, on a system of futures and one important market standing out, or, conversely, that the rest of the world had no futures and one important market out. I take it that the world price would be a function of two economic forces, one, the elasticity of demand for wheat, and the other the relative proportions and the elasticity of supply. The two kinds of producers coming into that market. For example, if one of the markets were supplying 90 per cent of the wheat and was subject to trade costs it would be possible to push part of those costs upon the consumer and enhance the price. Conversely, every one of the suppliers supplying only 10 per cent of the total, or 20 per cent for that matter, has a differential advantage and it can freely enjoy that advantage without it going into trades. Is that right? A.—It would. I should have stated in the beginning. I should have added other things equal, of course.

Q.—I am taking the half-way case, of course, between the world not being on futures at all and the world being wholly on futures and suggesting that the Winnipeg market is not on futures at all, and asking where the differential in cost would rest. Now, you could not, unless Winnipeg wheat in Liverpool is a preponderating part of the whole, you could not thrust the major part of any additional cost on to the consumer? A.—No.

Q.—It would have to come back on to the producer; you agree with that as an economic statement? A.—If the proportions contributed are as you state, that must be the case.

Q.—The very fact that it is a minor part of the total market would enable it to enjoy an advantage but it would also force the differential cost on the producer? A.—Type and quality, sir.

Q.—Then again, in the change of production brought about by futures trading, under those circumstances, it can very rarely rest as a differential for Winnipeg nor upon the world price? A.—Almost never.

Q.—And if Winnipeg were not to have something that is a differential advantage elsewhere, the cost of that would be borne by the producer? A.—If he didn't enjoy them, yes. Australia, of course, occupies a somewhat different situation on account of the fact that her wheat is not marketed upon a graded system which places her in a position of being deprived of a normal bargaining power which might under certain circumstances thus accrue to her and which, I believe, and they believe, it does not, and it is their intention in Australia as rapidly as they can to install bulk handling on the Federal system, in spite of the fact that they have four states and the delivery is going to be a very difficult problem in future practice.

Q.—When I speak of Winnipeg grain being marketed without a system of futures, I do not mean they can go on to Chicago Exchange. I am assuming no other outside system in cost must fall on the producers. In the case of Australia, where the hedging facilities are more strict, I take it that a good part of the wheat is marketed without hedging? A.—The present practice, I am advised by the London merchants who are very active in the trade, depends entirely on circumstances. Up to the period just before the war most of the Australian wheat was marketed as a cash proposition. They knew a great deal about the conditions of demand and supply; they made a shrewd guess at cargo space and all that and Sir Herbert Rowe said once in an address in Washington, "We used to out-guess the situation once in ten and upon that we placed our procedure." Since then the Australian shippers tend more and more to cover their contracts in part at least by hedging, but they are compelled, of course, to come to the northern hemisphere for their hedging facilities.

Q.—Would the quantity of wheat in which the risks are carried by the trade, perhaps, be greater in Australia than elsewhere? A.—I would fancy so, excepting sometimes in the Argentine.

Q.—I am speaking of Australia? A.—I am quite sure that the unhedged wheat that moves into export from Australia is distinctly larger than in the case of any other.

Q.—Can you tell me whether the coefficient of variation in Australian prices is larger? A.—I have never seen a computation. It is very difficult. They have no grades.

Q.—I do not ask you to make any direct comparison in any of the grades. Taking any particular grade, your fluctuations would represent a bigger field in relation to the prices? A.—I have never met them.

Q.—Now, the next point is this: Supposing that this hedging system, which is a method of insurance, were, for a particular market, not for the world supply, but supposing for the Winnipeg market made in some quite different way by an insurance company by paying a premium or in years by building up a reserve and meeting the price of fluctuations all along the line, supposing such a thing could be done, would it be advisable? A.—We have had that in California for 40 years.

Q.—How does it work? A.—California, Washington and Oregon are self-contained systems transportationally, but under very unusual circumstances they can, rarely, ship their wheat east of the Rocky Mountains and they can rarely import it from east of the Rocky Mountains, raw or milled, for the reason of the isolation.

Q.—They are not subject to the world prices then? A.—Not from the east and but partly from the west. They produce a wheat which is entirely comparable in type and quality with Australia or India. This they must market in the world market where their wheats are desired, primarily the United Kingdom where it is used as a biscuit flavor. The Australian and the Pacific Coast wheat meet in Europe and in that way the Pacific Coast wheat may be a factor in the world prices. Since the war Canadian wheat from Vancouver and Pacific Coast wheat from the Puget Sound meet in Europe and in that way we all feel the impact. Waiving aside the difference in type, Australian wheat in Asia is selling for nine cents a bushel less than the Canadian and Californian wheat and the Canadian and Pacific Coast wheat are for the moment excluded from the Asiatic market. During all this time we had no hedging. We were exporting wheat to two or three countries, this wheat was accumulated at the risk of the holder. They purchased from the areas they knew the supplies they needed for practically another year at the prices they were compelled to pay, which was as near as possible on the basis or flour shipped in from the eastern states either through the canal or across the Rocky Mountains. In some years they lost hugely in the grain futures of those mills; in other years they gained hugely. In some years their exports were highly profitable; in other years their exports were very unprofitable. To run a business in this way requires an unusual amount of active capital, an unusual amount of bank credit and a discriminating banker. As one of the Californian millers remarked to me once, we were either in a feast or a famine. For a term of years we believed that we made as much money as you make under hedging when all the risks are considered, but of course, a risk has to be paid for. That system still exists in California, Washington and Oregon because there are only two small Exchanges of their own. There is a small Exchange in Vancouver and a small Exchange in Seattle, and Portland, but a good-sized hedge would topple over any one of the three or all three. They cannot hedge in Chicago; they have tried to hedge in Liverpool, but found it very unsatisfactory. Therefore, they rely on their knowledge of the quantity and quality of wheat in a small area which they know very accurately. And then for the export trade, the situation is a pure speculation. They carry stocks, they take the risks, and in some years it works splendidly and in other years it works badly.

Q.—They each take their own risk? A.—Yes.

Q.—They do not pool amongst themselves and do not pool the several years? A.—No, they do nothing. It is considered a cash merchandise proposition.

Q.—Supposing it was a method of pooling a number of years and taking a premium in good years and paying out any losses in bad years of the pool, what kind of a premium would that entail? A.—I fancy that using actuarial methods for 20 years they could probably set up a figure for insurance which would be safe. This has been considered several times and rejected by them, not because it was unsafe, but because it disturbed the competitive elements of the different organizations engaged in this trade. How that would compare to the indirect or direct cost by which the risk is transferred to a group of speculators cannot, of course, be determined, except that in this case they carry all the risks themselves, which, if they could hedge them, would transfer those risks to speculators.

Q.—Do they have to have a bigger margin of price for what they offer? A.—They do, if they can get it.

Q.—Can they get it? A.—Some years they can and some years they cannot and it is a very worrying business.

Q.—Is it worrying only to the millers or to the farmers also? A.—I think the worrying extends, so far as the annual operations are concerned, the worrying extends to the millers and exporters. The farmers, I fancy, have received, considering the cost of their investments, I fancy the Pacific Coast wheat growers are as well off as east of the Rocky Mountains but the conditions are not comparable. They are farming on a large scale. The land is cheap and it was useful for very few other purposes. It is a straight exploiting form of agriculture.

Q.—Supposing they introduced a hedging system; would that narrow the range of the price they had to offer and give the consumer more? A.—Give the consumer more or both. The spread would be narrowed.

Q.—And the hedging would be a cheaper form, at any rate, of a practical insurance than a pool, I mean, than an insurance pool? A.—I do not know that. On the contrary, I have the impression that an isolated speculative market would be very difficult to sustain for apparent reasons. We have had no encouragement up to the present. There is very little active speculation from the Pacific Coast cities on the Exchanges of the east and in our own cities we have been able to awaken very little interest in speculation in grain futures. At present, the Exchanges are now, I think, in their third or fourth year and they are not increasing the volume of their operations, I believe.

Q.—You have not had to create a home rule for gambling? A.—No, but the Pacific Coast was developed on gambling so that word does not frighten any one there either in the context or plain text.

Q.—They generally find enough channels for their activity outside of wheat? A.—Yes, perhaps the best explanation that could be given of this would be that the largest milling companies in the United States now have branches on the Pacific Coast and I have no doubt if their books could be subject to an accounting it would show the difference in the margins of operations of the wheat account in a hedging area such as Kansas

City and Minneapolis, with an unhedging area, such as Seattle, Portland or San Francisco..

Q.—I think you are a little optimistic. It would be clear enough apart from other confusing factors? A.—There is a complete segregation in the accounting of a modern mill on grain futures which buys its wheat and sells it every day and must be paid by the milling division.

Q.—You take price fluctuations out of the profits, make a separate division of it? A.—Yes, or possibly I think that might be done in their office itself. Then we have another Pacific Coast experience which, I am told by the traders, is very clear. It has never been properly treated and it is our hope in the next few years we may treat this although it is entirely outside of our line, namely in fibre, cotton, which have been hedged for a long time; silk, not jute, have been hedged for relatively few years; wool is still unhedged. It ought to be possible by a collection of prices to see what extent there has been in the spread.

Q.—Can you give us any such figures? A.—No, I haven't them.

Q.—Do you know anybody that has done that? A.—No.

Q.—Nobody has really compared the coefficients of variation in unhedged products with hedged products? A.—I know of no single properly executed work. In the first place, the market is often of such an unsatisfactory nature that one hesitates to subject it to a refined mathematical treatment.

Q.—We have had the cost of hay brought before us and a certain obiter dicta about the variations being wide. You cannot get a world market and therefore you get that spread of fluctuating prices which is natural to a restricted market. Jute and silk ought to be susceptible of treatment? A.—Yes. Before that we had a period in which the trade conditions were quite comparable.

Q.—On the other hand, in the case of silk, you have two kinds of artificial silk, with two classes of the elasticity of demand? A.—That is very true.

Q.—And it is extraordinary even to get a figure there? A.—Very often.

Q.—And you get great elasticity of demand in different markets according to price? A.—Very different. Jute has very little; silk has very much.

Q.—Even if you got it there, it would not be a final proof of this problem, would it? A.—It would be very difficult with all of the questions to be attached to the coefficient itself and its use in the situation.

Q.—I mean the world is less fickle over wheat than it it over silk? A.—Much less.

Q.—There is a question which I do not think you have touched upon either in the study or in your statement now you may very likely have thought of and you may help us over: The multiple of the actual quantity of grain produced in the hedging figures even though there is no gambling element, it is sometimes pretty high owing to the fact that the same quantity of grain is hedged at different stages in its career and that figures come in at a number of times. It has been represented that in the life of an ordinary bushel of wheat from beginning to end it may be hedged a number of times with figures varying upwards and the figures might be eight or ten or fifteen times as great as the actual quantity of grain produced. Those figures people look at and say that you are selling an enormous number of wind bushels. There is a figure up to which we may say it is a normal part of the hedging process beyond which you would begin to discern additional gambling not required by the hedging. Hedging by the owner requires a certain amount of speculation to balance it. A certain number of people have got to come in who have not any personal handling of the wheat for their trade or business and they are required to complete an active and fluid hedging market. Can you give us any idea of the multiple beyond which you would regard real wind bushels as coming under gambling? A.—It was not mentioned there for the reason we did not see any particular purpose of burning our fingers on the question when we knew we were going to do it. I have a long file of correspondence with experienced grain merchants and millers whose transactions are large asking this exact question. Now, it is clear that for the United States the circumstances are not adapted to an answer as I shall explain in a moment. In Canada they ought to be because there is one large market where nearly all of the speculation is concentrated, where all of the hedging practically exists. In our country we have a central market, Chicago, which has a tremendous volume of speculation, a large volume of absolute hedging but a small volume of hedging relatively, surrounded by the active merchandising and milling. There is, like Kansas City and Minneapolis, where the total volume of transactions is small but the relative proportion is very large. It is not possible to regard us as a single market. The Minneapolis merchant and miller cannot hedge in Chicago except to a limited extent; the Kansas City miller cannot hedge in Chicago. In Chicago are located many of the large mills of our country and there are times when the millers will report they have difficulty in placing hedges. In Kansas City when the hedges are relatively easily placed in Minneapolis and there are other times when the millers in Minneapolis have difficulty in hedging in Minneapolis and they could be readily placed in Kansas City. Assuming that our wheat is 800,000,000 bushels and it is placed in the channels of trade and assume that all of the country place hedges, which, of course, is not true, and that the transfer from country to terminal is hedged, which, of course, it not true; that every purchase by a miller of wheat is hedged and every sale of flour by a miller is hedged also; neither of those, of course, are true. One would then arrive at some such figure as eight or ten hedging transactions, which, of course, have

got to be doubled. Now, if you had, let us say, ten hedging transactions involving 600,000,000 bushels of wheat, you would have six billion as your figures, now, our total trades, of course, known and reported, and one can see that in some years there must be an approach to a scarcity of speculation; in other years, there must not. I think of the last five years, we have jumped from seven to nineteen billion as the total volume of trading. Those are recollections; I haven't verified the figures, and obviously in a year when the trading is, say, as low as seven or eight, one might have anticipated some difficulty, whereas, as against nineteen or twenty, one might not have anticipated any difficulty, but it seems to me an attempt to approach this question would be taken very much better in Canada than with us; firstly, on account of the even flow of wheat, and secondly, on account of the relatively small proportion of the crop which is milled and on account of the fact that all of the trading is done in one market, and I think that the transactions of the Winnipeg Exchange could be used to define a reasonable answer, but I do not possess it.

Q.—I think you told us that in Chicago 5 per cent of the total is hedging? A.—About 5 per cent of the total sales are hedging only.

Q.—You mean that even that 5 per cent does not represent wheat to the full amount? A.—No, there are large amounts of wheat and flour hedged in Minneapolis and Kansas City, but in sizes the figures of hedging in Chicago are only low relative to the total.

Q.—But it is the superstructure of other speculation? A.—Yes, whereas in Kansas City the total transactions are not large, but relative to them there is more hedging.

Q.—What per cent would you say would raise the total in Winnipeg to support the required hedging? A.—I haven't the faintest idea.

Q.—10 per cent or 20 per cent? A.—I can't tell you because my guess would be biased by my personal experience much more than your own guess would be because you haven't burned your fingers in trying to do it, Sir Josiah.

Q.—I have got an inclination to burn them now. A.—I appreciate the disinclination of Dr. Duvel to give any definite figure.

Q.—There is one other question pertinent between Australia, California and Canada. In Australia and California it is much more common for millers and others carrying wheat to get bigger advances by the banks than in this country. A.—I think it is common everywhere.

Q.—But in those countries they find it difficult to get hefty advances from the banks unless they are hedged? A.—Yes.

Q.—Would you tell us what percentage of advance given quantity of wheat is obtained in normal times? A.—The figures for California I could secure and send them to you, I don't know them now.

Q.—Here on hedged wheat they can get up to 85 or 90, but for unhedged wheat the banks do not like advancing anything, but if you press them they tell you rather than be out of the trade altogether they might advance 60 per cent. What do you think of 60 per cent? Do you think that is a fair figure to take for California? A.—I can't tell you.

Q.—What is the practice of the banks in ordinary times with the amount they will advance, and the margin they want, on unhedged wheat, on the sole security of wheat without any collaterals, of course? A.—No collaterals except one thing that would bring the transaction back as I explained in the beginning the institutions engaged in this business out there are institutions of large private capital.

Q.—But you know what I mean, the average private operator he has just got his wheat and his own blue eyes to borrow on, and that is all we want to know, what he gets? A.—I will be very glad to obtain that information and send it to you.

By Mr. Commissioner Evans:

Q.—In the Australian and Argentine trades a large part is taken by European merchant firms which buy direct, handle across the ocean, and also sell again on the other side? A.—It is my understanding that the larger part of the merchant export trade is handled by three continental firms.

Q.—Are you aware of what the condition is in the Australian trade? A.—In the Australian trade the preponderance of influence is British and not Continental, and there is a larger proportion of Australian shipping engaged in the export of its own wheat than in the case of Argentine.

Q.—Would that make some difference inasmuch as these handling firms would have their own selling connections and even before shipment from Australia, perhaps at times before buying, might already have made commitments and practically sold? A.—A considerable proportion of the wheat is sold before it leaves each country. It is sometimes resold before it is loaded. It is sometimes resold several times in the vessel. It is sometimes shipped unconsigned and is diverted by cable instructions. That is true of both countries.

MR. COMMISSIONER EVANS—I have found this very informative and very helpful, but I have no further questions.

By the Chairman:

Q.—There is one other matter I would like to ask you about, because your Institute may have done some work with it that has not been published. You are acquainted with the work of Dr. Duvel on the division of speculation by sizes, and he endeavored to find

how change originated, and the effect of the size of trading. He, as you know, if you have read his examination of the 1926 May future, arrived for a single period at some very exact statistical results. Have you any views about those results, or have you tried them yourself for any other periods? A.—We have considered the question. We have worked at it to some extent. We have been dissatisfied with the application of the simple coefficient and correlation, and we have found the conditions for approach troublesome with multiple correlation, and very difficult, and in particular I think our difficulty lies in our inability to feel that a direct treatment to the data of the Chicago trade is to be trusted without a concomitant treatment of the transactions in Winnipeg and in Liverpool. Furthermore, we have hesitated to carry out on an extensive investigation and comparison between the various sizes and the various types of trade, as judged solely by the net change in the position of the closing price. It seems to us before that net change is accomplished there is opportunity for so much to happen.

Now, I have to read from the report the official paragraph in which this qualification is implicity granted in this document. "The influence that the transactions of an individual or group of individuals may have upon prices during the day cannot be measured completely in the absence of data showing how and when the trading is done during each market day. To obtain information, however, to show the time of day that the transactions for each of the pit scalpers and customers are made would be a very great task, even for one day. Some idea concerning the influence of trading by individuals and groups can be secured nevertheless by comparing net purchases or sales with net changes in the closing price from day to day. This method of measuring influence has been followed in this study."

MR. PITBLADO—On what page is that? A.—Page 50, Grain Futures Administration.

By the Chairman:

Q.—That is his own qualification? A.—Yes.

Q.—You would subscribe to that? A.—Yes, and I venture to elaborate upon what we believe this qualification consists in. In our view if one were to attempt a strict application of the methods of correlation, disregarding for the moment whether simple or multiple, one ought to have what we call a "flow" sheet. This we would wish placed on a ticker for the entire session for trades above a certain size, and the time of transaction. We might call it a buy. The volume of transactions and the price of these should flow together for the two simultaneous markets, Winnipeg and Chicago, and for the semi-overlapping market of Liverpool also. In this way we believe we could obtain information which would be in our judgment susceptible of a refined mathematical treatment as to the effect within the trading association of trades on prices. We are afraid to trust the net change in price at the close of the sessions as being fairly representative of what has occurred, or not capable of misconstruction or being biased.

Q.—I suppose you would say that is better than nothing, the close of the day, but it is not complete? A.—It is not complete for the purposes of investigation.

Q.—What it really amounts to, the man may finish up good in the evening, but it doesn't follow he has been good all day? A.—Precisely. Now, with respect to the short terms variations. In the statement that I read it was made clear that he held that futures trading not only need not check the short term oscillation, but may actually provoke them. The real question is not how large the oscillation is. The real question is as you look back on the price curve of the year and study these daily oscillations, the question is how significant were these oscillations in a quantitative sense, how significant are the up and down jiggers for the weighted terminal cash price of wheat, how significant are these up and down jiggers for the farm price of wheat. We have come to the view that there is a great deal of over-emphasis of both sides. On the part of those who believe that these short movements injure producers' price by depressing it we regard as exaggerated, as we regard as equally exaggerated the view so continuously pounded in my country, that all that is needed to raise the price of wheat is to let the big fellows alone and they will bring it up. We believe the big speculators in their claims for what speculation will do in boosting the price of wheat is an over-estimated influence of short term shift upwards, and that on the contrary the fears of the producer as to what the short term operations meant for his price are also exaggerated. I think a very good illustration of that is to be found in this circumstance that if one will go through the literature studying the oscillations day by day of the wheat price, one finds an enormous attention given them. I have never yet seen an attempt made to correct the wheat price curve of a year to indicate where it would have been in the absence of these oscillations. That is not attempted in this document.

Q.—No. A.—It is nowhere attempted.

Q.—That is a point I put to Dr. Duvel. A.—Now, until the influence of these oscillations on the going price can be measured with exactitude to enable one to attempt to show what has been the influence through them on the annual curve of the wheat price, we decline to feel that it is a matter that is tangible enough for us, and we continue to work on the question, but we have never published on it. It is a very difficult question to approach, because the more one gets into the enormous isolated factors which bob up in the course of the flow sheet on the market, the more difficult it is to say that the concomitant occurrence of this will lead to that, and the occurrence of that will lead to this, and a drop of one from here and there had a demonstrable influence upon the weighted price. This, of course, does not in the main controvert the fact that the farmer

who sells at the break loses, and the farmer who sells at the bulge gains. It is my understanding that in consequence of an incorrect statement from my country with reference to the proposed export of wheat that the Winnipeg Grain Exchange today fell 2 cents, and when this unauthorized rumor was corrected it rose 2 cents. Obviously any farmer who sold at the break was injured by that. But it is impossible in any statistical month as we see the approach to be able from any form of correlation which is based upon the closing price alone to measure or determine what influence might have been exerted upon the annual terminal price of wheat or upon the farm price of wheat.

Q.—Taking the farmers as a whole, not a particular farmer, the oscillations tend to cancel out? A.—I should say so.

Q.—Isn't it like trying to measure the variations and oscillations at the wheel base of a railway coach, whereas what we are thinking of is somebody sitting on a pair of springs and cushions within the coach, isn't that right? A.—That is a very excellent illustration.

Q.—And you would expect to find the oscillations more numerous and violent close to the wheel base than you would in the coach itself? A.—Yes.

Q.—But neither of them have any control of the gradients of the line which will go up and down whatever they think? A.—Yes, precisely. We have attempted in each review of the crop year when we look over the price to say, can we explain here, that occurred, and that occurred, and that combination occurred to do this, which wasn't verified. A crop record will throw a price out for three months, and then will come back, and then we have attempted to ask ourselves, let us take these oscillations, or the curve of these oscillations, and we will put them down as circles, shown as a sort of penumbra effect. Here is a small one, one cent here, 2, here is a 7, we will place this by the price curve in an attempt to see if we can get a view. Sometimes the zones are quite wide, sometimes quite narrow. Sometimes shown as just above the regular price curve, sometimes below, but we are unable, at least I am, in my feeble way, to obtain any direct approach to the mathematical verification of the extent of these things over the price of the year.

Q.—Would any counsel like to dip their bucket in this well of information? You start off, Mr. Sweatman, do you want to ask him any questions?

MR. SWEATMAN—No, I have no desire to.

THE CHAIRMAN—I hope you are not getting tired. What about you, Mr. Pitblado?

MR. PITBLADO—I have nothing to ask. except this. Dr. Taylor. your views on short selling are shown as set out in your article? A.—That is an entirely limited topic. That topic deals with speculation and short selling only under the circumstances that the intensity of it keeps us off or nearly off the export basis. If I were to write an article on the influence of speculation and short selling and used a period when we were 25 cents below Liverpool, and not five or ten, there would be a different treatment. I endeavored to point out it is difficult to blame speculators as a class for having kept our prices down, when, as a matter of fact, they have driven our prices up so high we can't export our wheat, and that they have done with the assistance of the Farm Board when they were in the market during the last three years.

By the Chairman:

Q.—I daren't ask you to expand that. Can we take it that the composite work of the Food Research Institute is represented here? A.—Yes.

Q.—But has not checked your own expression of view? A.—No.

Q.—But it is really your own view? A.—Yes, entirely.

Q.—And not merely modified? A.—No, that is my own view.

THE CHAIRMAN—I think we should like to thank you for coming this distance and giving us the support and help. We have all profited by your experience in the field. Thank you very much.

E. S. PARKER (called)

MR. PITBLADO—We were asked, Mr. Chairman, to bring the chairman of the Cash Closing Price Committee of the Winnipeg Grain Exchange, and I have him here, and will ask him about the work of that Committee, if it will please the Commission.

By Mr. Pitblado:

Q.—You are chairman of the Cash Closing Price Committee of the Winnipeg Grain Exchange? A.—Yes.

Q.—And you, I believe, are a cash broker? A.—Yes.

Q.—That is you do not operate yourself in the pit where the futures are bought and sold? A.—Only when it is necessary incidentally to cash grain sales.

Q.—You have been chairman, I understand, of this Committee since 1916, Mr. Parker? A.—Yes.

Q.—And it is composed of some six gentlemen of the Exchange? A.—Yes.

Q.—Who are, I believe, like yourself, cash grain brokers? A.—No.

Q.—Then tell me who they are? A.—They are composed of a couple of cash grain brokers, terminal men, I think, and a couple of exporters.

Q.—Tell me what this Committee, through yourself as chairman, does at the close of the futures market daily? A.—The cash closing price chairman of that Committee

furnishes prices and relative spreads of all the cash grain traded between members to the Winnipeg Grain Exchange as at the close of the futures market.

By Mr. Commissioner Evans:

Q.—That is the records or reports of actual spreads in prices in the transactions at the close of the market? A.—Yes.

By Mr. Pitblado:

Q.—I believe you make up cards, Mr. Parker, of what are called the cash closing price? A.—Yes.

Q.—And those cards I believe are made up through your clerks in your office and are got out within three to five minutes after the close of the futures market daily? A.—No, the prices are out, but the cards are not. It takes a little time to mimeograph them off.

Q.—The prices are put on the board? A.—Posted on the floor of the Exchange, and broadcasted the world over, within five or ten minutes after the close of the futures market.

Q.—What relation have these prices to the closing future price? A.—They are all based on the closing futures price.

MR.—PITBLADO—Tell me what you mean by that?

MR. COMMISSIONER BROWN—You mean the sales are based on the futures price? A.—All prices that a cash broker gets are generally bids from exporters, shippers, millers and terminal interests. About fifteen or twenty minutes before the close of the futures market I interview maybe half a dozen cash grain brokers and we compare notes and decide on a closing basis. The closing spreads relative to the futures are bids or actual sales we know have been made and close the market accordingly.

THE CHAIRMAN—How big is the margin or doubt?

MR. PITBLADO—What's the minimum and maximum of your prices as you make it up, Mr. Parker? A.—I don't understand you.

THE CHAIRMAN—You have something to settle? A.—Yes.

Q.—And you have to settle over a certain range of doubt? A.—We have actual bids that we fix our prices on.

Q.—Do you take the highest and the lowest and take the middle point? A.—No.

Q.—What is the range in your doubt, how much is there between you. A.—There is never anything between. We either know of actual sales or we have actual bids.

Q.—If you don't take the top and the bottom you take something in between? A.—We have no average.

MR. PITBLADO—You take the actual cash sales that have been made? A.—Yes.

MR. COMMISSIONER BROWN—If no sale has been made then you go around asking for bids? A.—We take the bids we have.

MR. PITBLADO—Now, Mr. Parker, what relation have the sales or the bids to the nearest future market price? A.—They are all based on the nearest future.

Q.—What is the difference between the cash price and the price say today, in April, of the May delivery, what's the difference? A.—On the various grades of grain?

Q.—Take No. 1 Northern, how do you work out the cash price for No. 1 Northern and here is the month of May, your next delivery month. A.—It is based today for instance three-eighths of a cent under the price of May.

Q.—What makes it under the price of May? A.—Because all our transactions are based on the May future.

MR. COMMISSIONER BROWN—Is it the last bid you are referring to? A.—It is a bid we have at about the close of the future market.

Q.—The last bid you have? A.—It is the highest bid you have.

Q.—The highest bid you have had during the opening of the market, during the market? A.—During the close of the future market.

MR.—PITBLADO—Is it the future price, that is the May future price less the cost of carrying and handling, is that correct? A.—It is the future price less the storage and interest up to the first of the delivery day.

MR. COMMISSIONER BROWN—If that were all, you would not need to go down and ask for bids, if you could figure it out on that.

By Mr. Pitblado:

Q.—Is that the minimum? A.—No.

Q.—The Chief Justice asks you why you ask for bids, is there sometimes a premium? A.—As a matter of fact, prices today are all at a premium.

Q.—Am I correct in putting it this way, that the minimum price that will appear as today's cash price is the May price less the cost of carrying it to May, that is the minimum? A.—Yes.

Q.—But in most cases or in many cases there is a premium, and that would appear on your cards if there was a premium? A.—Yes.

Q.—So in any event the cash price has direct relation to the future, and is either a future price less carrying price or a premium expressed on your cards? A.—Yes.

Q.—Show the Commission your cards to show what you mean by that. This is yesterday's card, Mr. Parker, closing on Monday? A.—Yes.

Q.—What is your first one there? A.—It is one hard 2 plus May, two cents, for one Hard in store at Fort William and Port Arthur.

Q.—Where is the line plus 2? At the top.

Q.—One Hard is 2 plus May, and that means this, Mr. Parker, you have a May option price plus 2 cents, is that what you mean? A.—Yes, sir.

Q.—Take the next one, what is that? A.—¼ cent under May.

Q.—And then your next one is? A.—2 Northern, 2½ under May.

Q.—Now, May wheat, the best grade is No. 1 Hard or No. 1 Northern? A.—Probably No. 1 Northern.

Q.—No. 1 Northern is what those prices are based on? A.—The prices are based on May wheat.

Q.—When you get ¼ under May that means ¼ of a cent for 1 Northern wheat yesterday? A.—Yes.

Q.—Is that a premium or is that just the carrying charge? A.—No, that is a small premium. That is the carrying charge as I recollect it at one-thirtieth of a cent for every day for storage and interest on top of that?

Q.—Based on what? A.—Figured at six per cent.

Q.—So you figure the carrying charge at one-thirtieth of a cent a day. Take your No. 2, was that a premium? A.—Yes.

MR. COMMISSIONER BROWN—Those represent the spreads between the various grades?

MR. PITBLADO—They represent the spreads and also would indicate if there was a premium for that kind of grain? A.—2 Northern is deliverable at three cents under May. That is almost a premium of a cent on a bushel.

MR. COMMISSIONER BROWN—In looking over your prices, do you look for the closing price or the closing offer in all grades? A.—We canvass the entire trade of the buyers on all grades. I fancy there are one thousand of them, of all grades of grain.

MR. COMMISSIONER BROWN—You say during the last quarter of an hour or so you canvass all the cash brokers on all grades, a thousand grades of grains? A.—We are not dealing in a thousand grades every day.

Q.—But you are fixing the price every day? A.—Yes.

THE CHAIRMAN—Where do you get your future price, what bid do you take that from? A.—The closing price.

Q.—And that is something that is settled for you, you take that from someone else? A.—That is the close of the market, the futures market.

MR. PITBLADO—You have No. 3, that is at the premium you say of one cent? A.—Yes.

Q.—Is that much of a premium or not? A.—3 Northern is deliverable at eight cents under May. That would be a premium of about two and a half cents.

Q.—Take No. 4? A.—4 is nine and three-quarter cents under May. We never deliver any of that.

Q.—That is a very large premium, but that is very rarely delivered? A.—Yes.

Q.—These figures are based, Mr. Parker, on your future market and then your cards are made up at so much under the May future? A.—Over or under as the case may be.

Q.—No. 1 Hard being right on the top line, being over and these others being under? A.—Yes.

Q.—And you have told me the future price less the carrying charges, that is the minimum and it may be a premium, you have explained here? A.—A lot of the time.

Q.—Then these cards are made out by you, and to whom are they distributed? A.—To the entire trade.

Q.—I understand they go to the North West Grain Growers Association and all the trade, and are these the prices that appear in the paper? A.—Yes.

MR. PITBLADO—These are the official cash closing prices that appear in the papers and are sent out, Mr. Chairman, to be read and every other way, all over.

By Mr. Commissioner Brown:

Q.—And govern the prices the farmer gets for his grain the following day? A.—Yes, sir.

Q.—For the whole day or until a radio message goes out altering? A.—That is a question to put to a line elevator operator. I do not know what happens in the country.

Q.—So far as you are concerned this is the price fixed for the following day.

By the Chairman:

Q.—Can the average farmer tell from this price whether this spot price is at a premium on the future? A.—Yes.

Q.—Thus he knows the variable you are taking for it? A.—Yes.

Q.—Where does he get it from? A.—From his banker.

Q.—Before he can interpret this does he have to ring up the banker to see what is the price to-day for May future? A.—I do not know, sir.

Q.—You do not help him to see that? A.—I do not. That is a line elevator job.

By Mr. Commissioner Evans:

Q.—The delivery spreads are fixed before the season begins by the committee of the Grain Exchange? A.—They apply for the year.

By the Chairman:

Q.—Has he got a daily table then? A.—They are fixed by Council of the Exchange.

MR. COMMISSIONER BROWN—That appears in these reports; the methods of fixing the spreads appears in the annual reports. It has not been filed yet.

MR. PITBLADO—I do not know that they are in.

By Mr. Commissioner Brown:

Q.—Mr. Parker, it must be that in some of these grades you cannot find a cash broker who has had an offer or who makes an offer in the day you are trying to fix the price, is that not so? A.—It rarely happens.

Q.—When it does happen? A.—I do not know that it has ever happened. I do not believe it has ever happened to me as a cash grain broker, that I could not get a bid for any grade of grain in Western Canada within five minutes after a request is made for a bid.

Q.—Let us get that clear, that you could not get a bid; do you mean during that last fifteen minutes that your Committee was seeking to fix a price to send out as a guide for the purchase of the farmers' grain on the following day, you could always get somebody who would make a bid among the cash brokers? A.—No; among the buyers.

By the Chairman:

Q.—They are not called upon to implement that bid, are they? A.—No.

Q.—It is just a guess on their part? A.—We rarely fail.

Q.—Everybody will give you a bid if they haven't to do anything with it.

By Mr. Commissioner Brown:

Q.—Quite so. They know what you are after, don't they, when you go round looking for that information? A.—They certainly do.

Q.—And they know you are really after information for the purpose of fixing a price for the next day? A.—They give us bids because they want to buy the grain.

Q.—You are quite sure about that? A.—Absolutely.

Q.—Should they be called upon, would they do it? A.—Yes; I would make them swallow it.

Q.—If they give you a bid, you make them swallow it? A.—Yes.

Q.—In other words, you make the sale? A.—I do not make a sale if I haven't got the grain but if the bid goes to the country and the farmer accepts my bid, I do not fall down once in ten thousand times.

By Mr. Pitblado:

Q.—I was going to ask the Committee to look at the back of those cards, Mr. Parker? A.—Figured out in what we call flat prices.

Q.—So that you show on the one side how it is arrived at and on the other side, the flat prices?

THE CHAIRMAN—This is the answer to the sum. We didn't see that.

MR. PITBLADO—There are the prices and these prices are the closing cash prices in store, Fort William, but it is arrived at the way I have shown you on the other side.

By Mr. Commissioner Evans:

Q.—In your negotiations in all cash transactions on the exchange you do not, for example, begin to take 62⅝ as a price for No. 1 Northern, but you take a quarter of a cent below May? A.—Yes, sir, it is on basis May.

Q.—And in all your cash transactions you use the future as a basis? A.—Always, the future.

Q.—Throughout the day in spreads, applying to that future? A.—Yes.

Q.—Does it apply in the morning as well as at the close? A.—It applies at all times.

Q.—So that you do not take flat prices but spreads? A.—That is all.

By the Chairman:

Q.—You only take, say, down the first column, bulk different grades? A.—Yes.

Q.—Can you take your grades, a page of B. & I., tough, rejected, smutty—they are different variations of this grain, are they?

MR. PITBLADO—Different grades, Mr. Chairman.

MR. COMMISSIONER EVANS—B. & I., is bill of lading and inspection certificate. That is, grain in transit on the road, which has reached an inspection point such as Winnipeg.

THE CHAIRMAN—It is the same grade at a different stage.

MR. PITBLADO—The next one is No. 1 Tough. There is such a grade.

THE CHAIRMAN—It is a subdivision of the grade.

MR. PITBLADO—It is a subdivision of the grade. There is another one called No. I Rejected, No. 1 Smutty.

THE CHAIRMAN—The figures on my card are in a very uncertain position. They seem to go half way between this and the other.

By Mr. Commissioner Brown:

Q.—Having fixed those prices during the last fifteen minutes for all these grades, then your committee does nothing more in the way of fixing the price until the close of the market on the following day, is that right? That is, you do not vary that until the following day, the same hour and in the same way? A.—In an active market these spreads fluctuate. For instance, this is yesterday's card. No. 1 Northern, you notice, closed at a quarter under May yesterday; something happened 1 Northern this morning, I don't know what it was; there was not much of a demand for it. We closed tonight three-eights under May. That happened 10 o'clock this morning. Yesterday, we could have sold all we could get at a quarter under May. The same, with 2 Northern; 2 Northern closed to-night a quarter worse than last night because of lack of demand.

By the Chairman:

Q.—Anything happen to the privilege market? A.—No, connection here at all with the privileges.

Q.—How long does it take you, this last hectic quarter of an hour you have, how long does it take you to settle this card? A.—It does not take long. It depends upon supply and demand.

Q.—Supply and demand what of? A.—Cash grain.

Q.—You are busy in the last quarter of an hour collecting this information? A.—We are getting this information during the entire session but we take it all up in the last fifteen or twenty minutes.

Q.—Then how quickly after the thing is over have you got the card complete? A.—That card is ready by three minutes after the futures market closes, that is, the prices are ready, they are posted on the board of the exchange from where they are broadcast the world over within three to five minutes after the close of the market.

Q.—There is not very much time after the close of the market.

Q.—There is not very much time for the privilege market to deviate very much from it while it is being calculated? A.—That has nothing to do with the privilege market.

Q.—It has nothing to do with it but at the same time prices may vary from the privilege market very considerably? A.—I do not get that connection at all. The privilege market are bids and offers after the close of the futures market.

Q.—They are bridging over to-night's prices and something that may happen tomorrow morning? A.—That has nothing to do with anything you see on there.

By Mr. Commissioner Brown:

Q.—How do you get next the trader, Mr. Parker, by telephone or by personal call? A.—Both.

Q.—Why both? A.—Well, I do as much business over the telephone as I do in personal contact on the floor.

Q.—I mean, why vary it? Why not do it all by telephone? A.—Because the party that I want to see is on the floor.

Q.—If he is not on the floor? A.—He is likely in his office, and I get him over the telephone in his office.

Q.—You deal with him by telephone in his office? A.—Yes.

Q.—It is not by personal call at his office? A.—Sometimes, yes.

Q.—Why? A.—To call on him personally.

Q.—Just for the purpose of making a call? A.—For the purpose of getting business out of him maybe.

Q.—Do I understand that in some cases it is necessary to make the personal call to get business, and in other cases it is sufficient to simply telephone? A.—It is done both ways.

Q.—I know; you have told us that it is done both ways but why both ways? A.—It is necessary to do it that way.

THE CHAIRMAN—Probably get the wrong number and put it on the card.

Q.—Is there any discrimination among the traders, that in some cases you find it advisable and proper to call and in other cases it is sufficient to deal with them by telephone? A.—No, there is not any discrimination.

Q.—I want to get at the reason if there is any reason? A.—None.

Q.—I am trying to get at the custom and practice that has been followed and the reason for it.

MR. COMMISSIONER EVANS—Are you talking about the same thing, I wonder; making sales of cash wheat or——

MR. COMMISSIONER BROWN—I am talking of the prices he is speaking about in order to fix the prices for the following day, for his committee.

By Mr. Pitblado:

Q.—Were you talking about that? A.—It is all right.

MR. COMMISSIONER BROWN—If you were not talking about that we will have to go over it all again.

By Mr. Commissioner Brown:

Q.—Do I understand from you that that price that you fix, your Committee fixes as a result of these inquiries, is the price that governs during the whole of the next day, I mean for the farmer in the country? A.—Now, Chief Justice, let's get this straight.

Q.—I want to get it straight. A.—There is no such thing as fixing. I do not like that word.

Q.—Well, settling.

THE CHAIRMAN—Recording. A.—That is a better word. We do not fix a thing. We just simply give to the world what we get.

Q.—But you know what happens as a result of what you do? A.—We get the best there is for the producers of Western Canada as far as bids on our various grades of wheat are concerned, absolutely.

Q.—Quite; I am not saying that you do not. I am not suggesting that you are not. You have been at this since 1916, so that you know what the consequences are of your activities, do you not? A.—Yes, before 1916.

By Mr. Commissioner Brown:

Q.—This information that you arrange in settling this price, we will put it, if you don't like the word "fixing", this information that you arrange is sent out, as I understand it, to the various elevator agents in the country as the basis on which they purchase the grain the followinng day, is that right, or am I wrong there? A.—I really don't know what is sent out.

Q.—You do not? A.—No, I do not.

By the Chairman:

Q.—They can't send out anything different from what you put on the card, can they? A.—The prices that are sent out to the various line elevator buyers in the country are sent out by the Northwest Grain Dealers' Association.

By Mr. Commissioner Brown:

Q.—But they are based on your figures, are they not? A.—I presume so.

Q.—Surely you know? A.—No, I don't know, and I have no means of knowing.

Q.—I pretty nearly know, and I haven't been at it very long, in an effort to find out? A.—I don't know that.

Q.—And you don't try to find out.

THE CHAIRMAN—But surely nobody else starts thinking of a number as well as this man.

MR. PITBLADO—Mr. Parker's duty stops when he has distributed. He is a recorder for the Grain Exchange, of its closing cash price. He is chairman of the Committee that has cards going everywhere. They go to the Northwest Grain Dealers' Association, a quite different and separate and distinct body from the Grain Exchange. They are elevator operators. There are some who belong to it not members of the Exchange, but they are the Northwest Grain Dealers Association. This association sends out their prices to their elevators, but Mr. Parker has nothing to do with it.

THE CHAIRMAN—I don't think anybody has suggested he had any responsibility about it.

MR. COMMISSIONER BROWN—I think he knew something about it, just as you know something about it, Mr. Pitblado.

MR. COMMISSIONER EVANS—I understand Mr. Pitblado referred to the section of the Turgeon report stating what the procedure was, and it is set out there.

MR. COMMISSIONER BROWN—Does Mr. Parker not read these reports after we go to a lot of trouble to make them?

THE CHAIRMAN—That Turgeon report is five years old. Has this radio information been given out?

MR. PITBLADO—I said the other day the only difference as set out in pages 16 and 17 is that the Northwest Grain Dealers' Association through the intermediary radio it out now instead of telegraphing it, and they may radio it twice a day, but anybody knows Mr. Parker doesn't do anything but record prices.

MR. COMMISSIONER BROWN—He fixes one price a day, or arranges one price a day.

MR. PITBLADO—He records.

THE CHAIRMAN—He doesn't know as a fact whether the radio gives the same figure. He is very sick of the job by that time.

THE WITNESS—You are right, it is a thankless job.

MR. COMMISSIONER BROWN—Well, we had some suggestion made here that two prices might be sent out on the same day, that is, sent out by the Northwest Grain Dealers' Association. I would like to know then, if they send out their first price on the

figures that you furnish, on what basis do they send out the second price, and you cannot answer that? A.—No, I would not attempt it.

MR. COMMISSIONER BROWN—Well, we will have to leave that to somebody else.

By Mr. Commissioner Evans:

Q.—There is a slight premium here. You have sometimes seen very much larger premiums? A.—Yes.

Q.—Sometimes very large? A.—Yes.

Q.—Can you remember how large they have become at certain times? A.—Do you want extreme cases, or average cases?

Q.—Give us two, an average and then an extreme. A.—One August, I have forgotten the year, I sold I Northern wheat at 55 cents a bushel premium over October wheat.

Q.—And about an average premium? A.—Two to four cents.

Q.—So that the futures price does not limit the maximum price that may be paid for cash grain provided there is a demand for cash grain in a particular spot position? A.—Decidedly no.

Q.—It may go as high as there is any offer for it, and not be limited in height by the futures price? A.—No.

Q.—You said I think that it could not go below the futures price, to a greater extent than the carrying charge? A.—Never. It might perhaps a fraction of a cent, 1/16 or ⅛ of a cent, but I have never seen it more than that.

Q.—You have never seen it more than that amount? A.—No.

Q.—How do you account for the fact that even say between December and May, when there is no movement by rail or otherwise of any extent out of the country, you could still sell within the carrying charge? Is that connected with the fact that there is a futures market? A.—We could sell cash wheat at better than the carrying charge, Is that what you mean?

Q.—No, if you could sell it at a carrying charge. The question as I think I put it is: Why cannot the cash price fall below the futures to a greater extent than the carrying charge? A.—Because there is always a demand for wheat, particularly contract grades, at the carrying charge difference. We can always sell wheat on that basis relative to the futures.

Q.—Because someone can hedge it? A.—Surely, its always hedged.

Q.—Is that the reason? A.—They wouldn't think of buying it if they couldn't hedge it.

Q.—If there were no May future could you sell as satisfactorily, say between December and May, cash wheat, or could you sell it at all times? A.—I don't think we could sell it at all if there wasn't a future to put his hedge in.

Q.—But because there is some future in which it can be hedged there is always someone ready to buy for cash at a price which does not fall below the carrying charge? A.—Because the future is there.

By Mr. Commissioner Brown:

Q.—Mr. Parker, as chairman of this Committee, do you take full responsibility yourself of securing these offers or bids? A.—No, I do not, Chief Justice.

Q.—Who gets them? A.—There are four or five cash grain brokers that I interview, and get their ideas as to spreads, in addition to all the buyers.

Q.—You get their ideas? A.—To see if the bids they have are any better or any different from my own.

Q.—I mean, you are the one who consults, as chairman of the Committee? A.—Yes.

Q.—Not somebody else? A.—If at any time there is any question I fall back on my Committee.

By the Chairman:

Q.—The Committee is really there in practice, in case there is a difficulty? A.—Yes.

Q.—I don't want to exasperate you by asking these questions over again, but I am still a little puzzled to see how far this function of yours of recording the price is really automatic, and how far it involves judgment on your part, and how far it is an exercise of observation, and how far it is an exercise of discretion. A.—Absolutely none.

Q.—None of which? A.—Of either. I do not have to use any discretion; I do not have to use any judgment;; I simply put down there what I get.

Q.—Sometimes you get several things, and you have to put down one of them. A.—I only get one thing for one grade, and that is the highest.

Q.—So it is a purely automatic process? A.—Absolutely.

Q.—How does the difficulty ever arise that you have to consult your Committee about? A.—Since I have been chairman of that Committee I called the Committee together once.

Q.—I thought that was coming. What was that to do, to elect you, or something? A.—No, a member was not satisfied with my closing price, the closing spread, and he reported me to the Council, and I had to explain the situation, and therefore the Committee had to meet and exonerate me.

MR. COMMISSIONER EVANS—Your price goes on the board then within three minutes and if any member noticing that price thinks it is not the right price he can report you to the Council of the Exchange? A.—Yes.

THE CHAIRMAN—Who will exonerate him? A.—Perhaps not, I don't know.

By Mr. Sweatman:

Q.—Do you go around the building yourself on these prices? A.—Yes, sir.

Q.—Does anyone else go around for you? A.—Yes, I have two men.

Q.—Two men go around besides you? A.—Yes.

Q.—Who are they? A.—One is a wheat man and the other is a coarse grain man. The wheat man's name is Spink, and the coarse grain man is Graham.

Q.—Does he go around to all the people in the building and buy cash grain and sell cash grain? A.—Yes.

Q.—In the last fifteen minutes? A.—No.

Q.—When is he doing this? A.—During the session.

Q.—Take the contract grades to start with, the spreads are fixed by the Council by resolution? A.—Yes, sir.

Q.—For instance, I am reading from the 1930 report of the Grain Exchange for the period from November 1st to September 31st. These are fixed by the Council? A.—Yes.

Q.—Does it vary with different years? A.—It has varied in the last twenty years a couple of times.

Q.—But that is practically a fixed price? A.—Yes.

Q.—And these contract grades, does Mr. Spink go around and get the actual sales during the day that are taking place? A.—I do the most of that myself. He or I get the actual sales or bids.

Q.—What I am getting at is, supposing at eleven o'clock there was an actual sale of No. 1 at a certain price, say 62⅝ cents. Well, now, if there were no other sales between eleven and three, would that be the price that would be quoted or would you go around and get other bids? A.—Supposing it is sold at a ¼ under at eleven o'clock, an actual sale of how much, say 5,000, supposing there were 500,000 bushels to sell if you close that market on a ¼ under May there would be still 495,000 to sell, would that be the correct basis to close No. 1 at?

Q.—I want to know what you do, I don't want an argument? A.—We get the best bid we can.

Q.—On the quantity? A.—On the grade.

Q.—What question would you ask one of your men at three o'clock? A.—We would ask them about twelve-thirty or one o'clock.

Q.—What would you say? A.—We would ask what bids he had on No. 1 Northern.

Q.—And name the quantity? A.—Not necessarily.

Q.—If there had been a cash sale at eleven o'clock and no other cash sales since, would you use that as the price? A.—Not necessarily.

Q.—What would it depend on? A.—The best bid we have.

Q.—On what? A.—On No. 1 Northern.

Q.—Would the quantity affect it? A.—It might not necessarily.

THE CHAIRMAN—The bid would have some relation to the quantity? A.—Yes, it would in a way.

Q.—Would you know what kind of a quantity you were suggesting for a bid? A.—At certain seasons of the year we might close at 5,000, and other seasons I don't think we would be justified in closing at a half a million.

Q.—If you thought he was bluffing, would you call his bluff? A.—Yes, if we had the wheat to sell.

MR. SWEATMAN—You do exercise judgment on the quantity of wheat he is bidding on? A.—At times.

Q.—Do you do it at this season of the year? A.—Yes.

Q.—What quantity are you asking to bid on? A.—Anywhere from a carload to 25,000 bushels.

Q.—And are these questions asked with a view to obtaining closing prices from the different members? A.—Yes.

Q.—They know it is for the purpose of obtaining closing prices? A.—Yes, some of them.

Q.—So what Mr. Spink or you say to a member is, what would you pay for No. 1 Northern on, say 5,000 bushels? A.—Yes.

Q.—And he does not have to take it at that time? A.—If he gives us the bid he would take it.

Q.—But you have not the wheat to sell? A.—Yes, but if we get it from the country.

Q.—The next day? A.—Or that afternoon.

Q.—But if he does not? A.—The market is closed then.

THE CHAIRMAN—Does it happen once a week or once a month? A.—It happens nearly every day.

Q.—What period would it be operated in? A.—That day or the following morning.

Q.—Supposing the market had been active, you would not hold him to the price? A.—We would hold him for that day.

Q.—It is a responsible thing giving you a bid? A.—Certain grades, yes.

MR. SWEATMAN—What do you mean by certain grades, some grades are more important than others? A.—Some fluctuate more than others.

Q.—Take the off contract grades, there would be a great number of cases where there would be no sales? A.—Yes.

Q.—And there it would be largely a hypothetical bid? A.—In any bid we get the buyer is just as anxious to get the grain as we are to sell it to him.

Q.—How do you know that? A.—He is in the export business, and I have an idea he would not be buying the wheat unless he is making something out of it.

Q.—Is not a large part of your work going around getting those bids for the purpose of closing prices? A.—No.

Q.—Nor Spink? A.—No.

Q.—Who is Spink working for? A.—E. S. Parker.

Q.—He is your employee? A.—Yes, sir.

Q.—Not a Grain Exchange employee? A.—No, sir.

Q.—He is just working for you? A.—Yes, sir.

Q.—But part of his duties are to get those bids for the Grain Exchange? A.—He saves me a lot of work. It is a tiresome job. I have been at it for thirty years.

MR. SWEATMAN—And the companies would go to all the cash brokers to get these prices.

THE CHAIRMAN—There is only one price for each grade.

MR. COMMISSIONER BROWN—Mr. Parker told me that he did it all.

MR. SWEATMAN—It turns out he doesn't do it.

By Mr. Sweatman:

Q.—You meant you did it through Mr. Spink? A.—My office does it.

THE CHAIRMAN—I don't think Mr. Parker would like if I told him outside that his job didn't require any judgment. I think the judgment must come in on quantity, who you ask, day by day, and whether you call the man's bluff, and what you ask, and those four things seem to me to enter into it. I may be quite wrong, but that is how it strikes my mind.

THE WITNESS—A great deal depends on the party from whom you get the bid.

THE CHAIRMAN—I don't believe you are just an automatic recorder, or automatic register.

By Mr. Sweatman:

Q.—Would it be putting it fairly, Mr. Spink really does this work for you? A.—No, sir, I do the bulk of it.

Q.—You just told me that he did it for you, which is it? A.—I do the bulk of it, and he helps me along.

By Mr. Pitblado:

Q.—What is your business? A.—Cash grain broker.

Q.—You are all day busy trying to sell grain. A.—Yes, sir.

Q.—What I am trying to get to the Commission is that he has a job all day, trying to sell grain. You have been at that for many years, cash grain broker? A.—Yes.

Q.—And in the course of your job all day you are making your living by trying to sell grain, is that correct? A.—Yes.

Q.—Cash grain? A.—Yes.

Q.—You are offering grain to people to see if they will buy it? A.—Yes.

Q.—Or trying to buy grain? A.—I am working for the seller all the time, because he pays me to get the highest price possible.

Q.—Are you doing that the whole day until the market is over? A.—Yes.

Q.—And these bids that have been spoken of, are they only bids made to you, or just made for the cards? A.—I think I have made that plain.

Q.—They are really bids made to you? A.—Absolutely.

Q.—For the purpose of your selling the grain if the bid is made? A.—Yes.

By the Chairman:

Q.—But you do record a bid as the closing price upon which you haven't sold grain? A.—Yes.

By Mr. Commissioner Evans:

Q.—Providing there has been no actual price within the last fifteen minutes? A.—Yes.

By Mr. Pitblado:

Q.—You have grain to sell. The bid that may be made to you is not the price you are told to sell it at. Then you would record the bid as the best bid, but the price your man wanted to sell it at, you would know it was all right by the sale you made? A.—Yes.

Q.—So it is either the best bid you get, or the best sale you make? A.—Yes.

Q.—And at the same time the inquiries you made from other brokers? A.—Yes.

THE CHAIRMAN—But if in fact he gets a lot of bids on which he doesn't sell grain those bids may be anything up to a particular point.

By Mr. Pitblado:

Q.—They are the best bids you can get, but have you any doubt about them being the real bids? A.—No, all real bona fide bids.

THE CHAIRMAN—You don't get more than one bid from a lot of people for a particular bid.

MR. PITBLADO—He might. A.—You get the highest bid. There might be a dozen people bidding for it, but you take the highest bid.

MR. COMMISSIONER BROWN—The one that governs.

By the Chairman:

Q.—Would you get more than one bid for one grade? A.—Yes.

By Mr. Commissioner Evans:

Q.—As chairman of this Committee you are an officer of the Exchange? A.—Yes.

Q.—And in recording the prices you are recording them for the Exchange? A.—Yes.

Q.—Under the authority of a committee appointed by the Exchange? A.—Yes.

Q.—And subject to removal and subject to supervision or control by the council of the Exchange? A.—Yes.

THE CHAIRMAN—Thank you very much. We are much enlightened. Have we anything more tonight?

MR. SWEATMAN—No.

THE CHAIRMAN—Then we will adjourn until the same hour tomorrow morning.

(The Commission therefor adjourned at 10.15 p.m., April 21, 1931, to 10 a.m., April 22, 1931, at same place.)

Royal Commission on Grain Futures

10.10 a.m., April 22, 1931.
Royal Alexandra Hotel,
WINNIPEG

THE CHAIRMAN—What are the arrangements for this morning?

MR. SWEATMAN—There are four or five witnesses. I don't think any of them will be very long. I will call Mr. McPhail first. Mr. McPhail is president of the Central Selling Agency of the Pool.

A. J. McPHAIL (called).

By the Chairman:

Q.—Will you read your statement? A.—Yes, sir. (Reading):

I intend to be quite brief and am simply going to express what I believe to be the farmers' viewpoint regarding the futures market. I believe, and my belief has been supported by witnesses representing the Grain Trade, Millers and Bankers, that the facilities of the futures market provide very useful protection to these various interests. It enables these interests to carry on with increased safety, if not increased profit. It was primarily designed with that end in view, and I have no criticism to make on that score; but a system which may work in a satisfactory manner and provide sheltered safety to bankers, millers and grain handlers and merchants, may not, and in my opinion does not, provide the same security to the grain producers who are after all the all important group in the picture.

The organized farmers of Western Canada have felt for many years, and feel at least as strongly to-day as at any time in the past, that the present system of futures trading does not work out in their best interests. They feel that the price they receive for their wheat from day to day is largely influenced by the attitude of mind of the uninformed speculating public, and that such a method of determining or influencing the price level is too insecure and unstable a foundation on which to build any industry. They feel that the effect of uncontrolled speculation results in much wider fluctuations in the market price than would otherwise be the case. A steady or much more steady price level than now obtains would be of inestimable value to the producers, if some means could be found to bring about the desired results.

It is my firm belief that the great majority of Western farmers, on whose efforts the production and supply of the commodity depends, are very strongly of the opinion that the effect of futures trading on the price they receive is detrimental. They have not definite proof that this is the case because there are no facts or records available to them regarding the operations of the futures market on which to base a really intelligent study of the whole question. Because of this the organized farmers are strongly of the opinion that the Winnipeg futures market should be placed under the supervision of a department of the Federal Government, and subject to its rules and regulations. The Livestock Exchanges of Canada have been under such supervision by the Federal Department of Agricultural for some years. In the United States, as the Commission know, where there exists a system of futures marketing analogous to that in existence here, the result of the intervention of the Federal Government and its examination of the records kept and compiled under its supervision, according to the evidence of Mr. Duvel, has been to show that the market price is caused to fluctuate unduly to the general disadvantage of producers.

If legislation were passed in Canada, the experience of the United States with the workings of the Grain Futures Act should be a valuable guide to the Canadan authorities as to the nature and extent of the legislation necessary. The information gathered under such legislation by an independent department of the Government would provide the means for a more satisfactory study of the effects of futures trading on the price of wheat than appears to exist in this country to-day.

It is difficult to understand why there should be or would be any opposition to such supervision. If an unbiased study of statistics and records secured under such a plan revealed that there was no foundation for the suspicion in the minds of many farmers regarding the effects of futures trading, I am sure the supporters of the present system in its entirety would be relieved and satisfied. On the other hand, if there are weaknesses and abuses the sooner they are exposed and corrected the better for all concerned.

By the Chairman:

Q.—How many farmers do you represent, Mr. McPhail? A.—In the Saskatchewan Pool there are about 84,000 farmers.

Q.—I wonder how many you represent. Have you got the opinion of 84,000 separate farmers, or are you expressing a collective opinion for them? A.—I am expressing a collective opinion for them.

Q.—How do you know you are expressing the opinion of 84,000 farmers? A.—We have 160 delegates who are elected by the 84,000 contract signers in comparatively small territory, and these delegates are unanimous in their opinion on this question.

Q.—But those delegates are elected for a particular purpose, nothing whatever to do with this matter? A.—Yes, nothing whatever to do with this.

Q.—To carry out other functions altogether? A.—To lay down the policy of the organization.

Q.—They may not be the best people elected to criticise some other opinions? A.—Quite true, but they do represent the opinions of the members whom they represent.

By Mr. Commissioner Brown:

Q.—Have they expressed themselves on this question, Mr. McPhail? A.—Yes, by resolution.

By the Chairman:

Q.—Your 160 delegates have expressed themselves, but not the 84,000? A.—No, not as individuals.

Q.—But you believe if that was submitted to the 84,000 farmers you would get a considerable majority for it? A.—I would say, a vast majority.

Q.—But insofar as they have knowledge, because you have put knowledge in their mouths which they would not have had. They would not know the purport of Dr. Duvel's evidence? A.—They don't know anything about Dr. Duvel's evidence, but I do say this has been an opinion in the minds of the farmers in Western Canada for many years, whether it is well founded or not.

Q.—But you have added to it and given it a meaning which it otherwise would not have had? A.—Possibly.

Q.—I don't think Doctor Duvel went as far as you suggest? A.—Possibly.

Q.—I think you have attributed to him conclusions not to be arrived at from his evidence? A.—Possibly.

Q.—If you read his cross-examination of yesterday, I think you will come to that conclusion? A.—Yes.

Q.—What you said is that that is the opinion held in some vague sort of a way by the 84,000 farmers? A.—It undoubtedly represents what the vast majority of the 84,000 would say if they were asked their opinion, which might be informed or uninformed.

Q.—That is the best we can make of it. We cannot put it any higher than that? A.—Yes.

Q.—Of course, it is only in order and within our remit insofar as it is dealing with the system of futures and says it would be a better system if you made certain changes and would have a better effect for the producer, but it still does not tell us, having introduced those changes, how it would be advantageous to the producer. It says, "May not, and in my opinion does not provide the same security to the grain producers", and then you go on and say you want certain things done, but you do not say those things would alter that preamble. A.—I do not think I suggest that there should be certain things done to it. I suggest that in order to clear up whether or not there is any foundation for the suspicion that exists among the producers, provision should be made that complete record be kept of all transactions, in order that a really intelligent study can be made of the subject.

Q.—What you really should say then is this: "It may not, and as far as we can tell at the present time does not provide the same security to the producers, but if we had more information, we think it might, and we suggest that more information be collected"? A.—Well, I would not say you are not right, except this, that to those interests that I have mentioned, so long as they stay within the protection afforded by the futures market, it does accord to them ample protection.

Q.—But it does not provide the same protection for the producer? A.—Yes.

Q.—You say certain things should be done. Whether those things should be done to it in order to protect those other people, not being farmers, or whether you want it to afford a like protection to the farmer, is not evident from the statement. A.—No, I don't suggest that there should be anything done to it, other than gathering complete information as to its workings and the result of the transactions that take place in it from day to day, in order to find out whether it is necessary to do anything to it.

Q.—Supposing you had that, what is the object? To make a better system for the farmer? A.—To find out whether or not something can be done in the way of regulating it in order that it may afford a greater measure of protection to the farmer.

Q.—You say that it does not provide the protection for the farmer; you cannot tell whether it will do. But if you make certain investigations, you will then be in a position to see if the system is capable of giving protection to the farmer? A.—Yes.

Q.—But you do not go so far as to say that if that is done, it will give protection to the farmer? A.—No, I don't know. As a matter of fact, I know very little about it, because we have not enough information to know what is the effect of certain actions and all that kind of thing.

Q.—Well, I will put it to you this way: supposing the system as it stands, with the additional things that you suggest, were in force, do you think then that the system would affect the price received by the producer? A.—I don't know.

Q.—Your evidence is entirely negative? A.—Well, I would say that at the present time there is not available, as far as I know, information on which to base a really intelligent study of the futures trading and its effect on the price. Whether because there are no available records for a long enough period of time to make a study of that, I do not know.

Q.—But you do make a positive statement, which is very important, as it is on behalf of 84,000 farmers, that it does not protect the farmer? A.—Well, in this way, according to the evidence it protects all the other interests; as far as the farmer is concerned, it does not protect him in any particular price that he is receiving for his products.

Q.—Does it in the long run give better prices or worse prices? A.—That is very difficult to tell.

Q.—You said it did not give him better prices. Now, you say it is difficult to tell? A.—No, I did not say it didn't. I say it does not afford him the protection it affords to these other interests, in that it fairly well guarantees these other interests, their safety and profit, while it does not guarantee the farmr anything at all in the prices.

Q.—I understand that. Let me put it in another way. Does the protection which you admit it affords to the other links in the chain, does that reflect back and give the farmer any advantage, that protection? A.—I don't know that I have got you.

Q.—These various links in the chain are affording certain protection, giving some advantage; does any part of that advantage react to the farmer's advantage? A.—Well, when it affords protection to certain interests that are dealing in the grain under that system, affords them fairly complete protection, it is reasonable to suppose that under the system it might afford the farmers an added protection as a result of that.

Q.—I am not suggesting it affords the farmer some kind of protection. I am only asking whether the advantage it affords to the rest of the chain is entirely restricted to that or whether some of the effects of this advantage are felt by the farmer. We are told that because of this protection under this system the prices quoted do not have so great a spread and some of the advantage, if not all of the advantage of not having so great a spread is reflected on the price received by the farmer. A.—It is quite possible as a result of the protection afforded these other interests the spread may be narrower on the actual market price of the day, but what I do say is that it does not afford the farmer any guarantee of any particular price level on any particular day.

Q.—Nobody suggested it ever would. But the point at issue is, if the system affords various cheaper methods of conducting business along the rest of the chain, does it reflect and pass back some of the advantage in the price to the farmer? Do you deny that, or not? A.—No, I would not deny it. I don't know.

Q.—But you merely say the kind of protection they get is not the kind the farmer himself could enjoy? A.—No. The farmer does not get the same measure of protection.

Q.—But he may benefit at the same time by the protection the others get? A.—Under the system, yes.

By Mr. Commissioner Evans:

Q.—Would you be prepared to give us anything of your own experience in futures? You, I understand, are president of the Central Selling Agency, as well as of the Saskatchewan Pool, and you have had a good deal of experience with futures, yourself, in those respective capacities? A.—I have had no personal experience. I do not attend to that.

Q.—But as president of the Central Selling Agency you would be responsible for the policy of the Central Selling Agency, or have to take your share of it, would you not? A.—Take my share of it, yes.

Q.—You have had experience with the futures market, have you not? A.—In directing the policy.

Q.—Would you be prepared to give us some of your experience? That would be direct evidence, perhaps, bearing on the futures question. A.—Well, I do not know what would be the nature of the experience. I could not discuss the experience of the organization in selling wheat in the same free way, with intimate knowledge, as a technical man who actually takes care of the transaction.

Q.—No, not in detail; but you have at various times held open accounts of a very considerable size in the futures market, have you not? A.—Yes.

Q.—In the course of the business policy of your organization have you ever hedged your grain? A.—Well, hedging in the ordinary sense of the term, as a line elevator does it, no. But we take advantage of the futures market to hedge certain quantities of grain at certain times. We do not follow the practice as it is usually understood.

Q.—But either by purchase, or exchange for cash grain, you do acquire very large volumes of futures at times? A.—Sometimes.

Q.—And what has been your policy with regard to this? How have you handled them? A.—Disposed of them as and when our salesmen considered that the market would best absorb them.

Q.—You try to get the best price, or, at least, use your judgment as to whether to dispose of them now or to hold them for months? That is, you have speculated in futures, have you not? A.—No, I would not call it speculation.

By the Chairman:

Q.—Invested? A.—Well, it depends on what Mr. Evans is referring to. I would say that when you take back futures against the sale of cash grain, you are simply exchanging your position. I would not regard it as speculation.

By Mr. Commissioner Evans:

Q.—You were president, I think, in 1926; and, in fact, you have been president since the beginning of the Central Selling Agency? A.—Yes.

Q.—Do you remember your report in 1926, stating you took delivery on option account during the past year of 16,540,000 bushels? "In explanation I may say we accumulated options in exchange for cash wheat. These options are treated as part of our stock of grain and are realized upon from time to time as conditions warrant. Due to the selling policy and in order to avoid unduly depressing the market, delivery was accepted of this quantity of wheat." That is, instead of selling that particular quantity of 16,000,000 in that year, you held that until the delivery month for the purpose and in order to try to influence the price in the futures market? A.—Well, I don't know that we tried to influence the price. We were just in the same position, taking delivery of the wheat, as if we had held the option, or as if we had switched the option for a future month.

Q.—I quite appreciate that and I have no intention, Mr. McPhail, of entering into the details of the policy. Of course, taking what you have now said, it means that you really didn't sell your wheat when you went through your cash transaction, but that instead of selling it then, when you had that opportunity to dispose of cash grain, instead of disposing of it then, you decided to hold it several months in the form of futures in the hope of getting a better price for it. According to the definitions we have had from time to time, that would be speculation, and the statement of yours in 1926 shows that you were trying to use the futures to help to manipulate the futures market and affect futures prices. A.—We use all the legitimate channels and all legitimate methods of trade to try to secure under the system the best price we can for our wheat. We consider that we are quite justified in using all available channels and methods for getting the best price for our wheat.

Q.—You are probably the largest dealers in futures in the Winnipeg market? A.—I have no idea of that.

Q.—You might be? A.—I have no idea whatever of that.

Q.—You say you have considered that you would be free to use every means that was available of the machinery and facilities in connection with the handling of your crop, but as far as I have gathered you have not used one of those facilities, that for hedging? A.—Yes.

Q.—Suppose you had hedged during the last eighteen months, might you not have shared the protection which you say is afforded to those in the trade, who use the completeness of it? A.—It is possible if we had hedged our grain, as you suggest, during the past eighteen months, in all probability we would have had much lower levels very much earlier in that season than we had. The decline, the great decline in the price of wheat would probably have taken place much earlier in the season than it did. It is not our policy to hedge all our grain as it is delivered. It is our policy to attempt to sell it as evenly as possible throughout the year to get the average price of the season.

Q.—That is a very interesting statement. You say it is not your policy to hedge your wheat, but it has been your policy to dispose of your wheat as evenly as possible throughout the season. Now, taking that latter part, you have told us, instead of disposing of your wheat, it has been your practice to take over and hold the option, which is the same thing as disposing of the wheat, so I don't know that that statement is quite consistent. But it has not been your policy to use the hedging facilities afforded by the futures market, and according to the evidence before us the hedging facilities are those of real importance in the whole system. You have been using all the other facilities, which according to the evidence are speculative, but hedging is one thing that is not speculative, but designed to avoid speculation, and that is one thing you have not used, although you are perhaps the biggest operator in the futures market there is? A.—We have used the futures markets to hedge, I said that before, to hedge certain quantities of grain from time to time on which we want to fix the price. We have used the British market whenever we considered it advisable to do so when we take back futures against the sale of cash grain. I do not consider it as speculation if we sell any wheat if there is a particular demand for wheat and we sell an undue quantity in view of the amounts we have to sell, and if the market was not capable of absorbing all the options we simply take back the options for the purpose as a general rule for more evenly distributing our sales.

Q.—I have expressed myself on that point. You are not evenly distributing it if you dispose of cash grain, and instead of cleaning up that transaction you take a future. It is the same thing as continuing to hold it for another month. A.—We are by that very operation helping to distribute our sales more evenly for the season.

Q.—It looks perfectly clear to me you are not doing that at all. You made a remark that if you had hedged your wheat the price might have gone down. If you had hedges against your wheat, when you came to sell the cash wheat and took over the option from the purchasers, those two options would have cancelled themselves out. Under your practice, you took over that option and having no hedge against it you became long in the futures market? A.—Just the same as we were carrying the wheat.

Q.—Then there came a time when you had to sell the hedge again to clear your position in the futures market? A.—Yes.

Q.—As the evidence has shown—I will not attempt to go into what has been made public in detail, but some of those options you carried a long time, but you had to sell them again. Are you of the opinion, and so expressing yourself to this Commission, that it would have done more harm to have sold out the hedges in this market in the autumn of 1929, when, if we may judge by the comparison with the Chicago market, the volume of trade in all the futures markets in the world was very, very large—that it would have had more effect for you to sell your options then than to hold those options and sell later.

A.—That is very difficult to tell. I don't consider that the conditions of the last eighteen months are such as to draw any conclusions from record of practical value because they have been quite unusual, and I don't think you can draw conclusions, and it is only a matter of opinion as to them, and it is much easier to form opinions looking back than looking forward. I am still personally of the opinion that they, knowing what was going on—the point was what the conditions were going to be in later months—I am still of the opinion that a very serious market condition would have developed earlier in the fall of 1929 had the Pool hedged its deliveries.

Q.—You carried over about 40,000,000 bushels? A.—At the end of July we had about 52,000,000 unsold stocks.

Q.—According to your statement at the end of August something like 40,000,000 bushels—we have the figures here somewhere as to the carryover—and you mean that the selling of that quantity in those months at those price levels would have had a worse effect on price than to take over hedges representing that quantity of wheat, and hold those hedges and sell them later? A.—Quite possibly, no one can tell.

Q.—As a matter of fact it did not work out satisfactorily this year, the policy you have adopted? A.—It has not worked out satisfactorily to anyone. I don't think business conditions have worked out satisfactorily.

Q.—We have figures before us from twenty companies that on the average—without looking up the exhibit—that on the average those companies paid to farmers in the year 1929-30 one dollar thirty-four and a fraction per bushel for No. 1 Northern, and all those companies are still in existence. A.—In my opinion that does not apply very much, because you do not know how many farmers got that price or sold at that price.

Q.—That was given to us as the average of all the sales throughout the year of the farmers who dealt with those companies, and your farmers received a very much lower amount, and even that your company have not been able to meet, and as far as we can see the chief difference between your position and theirs is, that you did not hedge and they did, excepting small quantities which they now regret they left unhedged, whereas you used all the other features of the future market which are the speculative features but not the protection. A.—I don't agree that the other features are the speculative features in the way we used them. Again, we are protecting the market by not hedging, and by selling our wheat in more reasonable quantities we are protecting the market, and it was our action, in my opinion, which largely resulted in some Pool farmers getting higher prices than they would if all the grain had been hedged in the fall, because in my opinion no one can show or prove that a market that will take today 1,000,000 bushels and not go down, say perhaps down a half a cent or a cent, can take 2,000,000 bushels without being further weakened.

Q.—Without going down two cents? A.—No one knows. It may be a cent or five cents. It depends on the condition of the market and the demand.

Q.—But in the volume of trade you would hardly expect the Winnipeg market to go down five cents on 2,000,000 bushels? A.—I don't know. I think it would depend on the condition of the market and the number of people wanting to buy wheat, and that sort of thing.

Q.—Even if it had gone down from the average level at that time of the year of one dollar forty, that would have been better than your company being left in the middle of last November with still 6,000,000 of those options, and with the price at fifty cents? A.—It might have gone down to dollar a bushel if all the grain was being hedged in the same way.

Q.—If it had gone to a dollar it would have been better than what happened? A.—It might have gone further, no one can tell. We all know that the market tended during that period to weakness, and that any much heavier pressure of wheat would, as far as anyone knows, make for a lower price, and no one can tell how much lower.

Q.—You are not following your policy of orderly marketing, but while you did allow your cash wheat to go out you took back its equivalent and held it? A.—In some measure, yes.

Q.—And held it away on until the price was fifty cents? A.—No, we did not hold from that period.

Q.—In the form of futures? A.—No, not from the period you were speaking of.

Q.—There are answers given in the local legislature here as to the amount of futures in 1929 and still held on the 15th of November last when prices were down to fifty or sixty cents? A.—You know these transactions are taking place all the time on futures that would have been held in December 1929. The fact is there might be some long futures in November 1930, and it would not be the same futures at all.

Q.—My point is, the farmers you are representing here today, do they approve of the policy of speculating in cash wheat or futures by holding instead of orderly sale, as has been, according to what you have said, your practice, do they approve of the use you have been making, as a representative of them all in a business capacity, of the futures market? A.—In my opinion again the vast majority are very loyal to their organization and realize that hind sight is much more clear than foresight, and there is still in my opinion the vast majority of them in favor of orderly marketing as they ever were.

Q.—The system of orderly marketing that has been in operation practically? A.—I would say again that the condition of 1929 was so unprecedented and unusual that the

members of the organization are prepared to take this view, that it was such an unusual condition that it has not shaken to any extent their confidence in the Pool method of marketing and orderly marketing.

Q.—I am not raising that point.

THE CHAIRMAN—They are trusting to their leaders?

A.—I don't believe in the story of the blind leading, or people putting their trust in leaders.

MR. COMMISSIONER EVANS—I am not raising that point at all. I am raising the point whether they really approve of orderly marketing? A.—I would say they would take this view, looking back, personally. I discussed it very technically with them.

Q.—When did you discuss it, if I may ask, because this reference I have read is the only reference that ever became public as far as I know to indicate that you ever took over and held futures? A.—It has been known by the delegates of the organization since we were organized that we did that.

Q.—Very strange it did not become public? A.—It has been quite public information amongst our members and delegates since we started business because we have discussed it in a frank and general way at all our meetings, and I do not agree it is speculation.

Q.—You held for a higher price, in hope of a higher price? A.—I say we deal for the purpose of distributing reasonably evenly over the season, and for the purpose too of preventing undue pressure at certain times on the futures market and preventing ourselves getting the lower price.

Q.—We have your two points. The first is, the distributing of your sales as evenly as possible, and the second is, to avoid pressure on the futures markets at any particular time? A.—Yes.

Q.—I wonder whether we cannot come to an understanding on the point of evenly distributing sales? If you sell 5,000,000 bushels of cash wheat, say in the month of October, or whatever the quota is you might have sold in that month, as far as that is concerned, and in connection with that you take over 5,000,000 in futures? A.—We take back 5,000,000 futures.

Q.—You take back five million of futures and you hold that. Have you disposed of wheat? A.—No.

Q.—Then you have sold none at all in October? A.—No.

Q.—Is that orderly marketing? A.—No.

Q.—You hold that wheat, then, in the hope of getting a higher price in some future market? A.—Yes, if we did that.

Q.—Did you not do that? A.—Not to the extent that this illustration would lead one to believe. I would say again, for instance, for some particular reason as a result perhaps of stocks getting very low in European countries and suddenly realizing that fact, but for a combination of reasons, there is a particular demand for wheat in October, and we sold say 30 million bushels of actual wheat, we might consider in view of the total amount we estimate we are going to have for sale that year, that was too much wheat to fix a price on during that month, in view that price fluctuated up and down during the whole year, and we would feel ourselves quite justified in evening, or helping to distribute ourselves more evenly, by perhaps taking back 10 million of futures, and hold that to sell later. That is what I mean by saying we use it sometimes to distribute ourselves more evenly. That is not speculation, in my opinion. That is the same as if we did not sell our wheat, but we haven't refused to sell our wheat to a miller or consumer, we have put it into consumption.

Q.—But as a matter of fact, you take over nearly 30 million of futures, take back practically that amount? A.—No, I wouldn't say that. As a general rule we take back futures against export sales of wheat; that is my information.

Q.—You can sell flat? A.—We can for export, anyway, in a large way.

Q.—But the rest you sell you do not. But insofar as you take back futures you haven't sold your wheat? A.—Quite.

Q.—And rather than sell out those futures and clear and complete the cash sale you hold those futures in the hope you will be able to make a profit on them? A.—As I said before, not necessarily for that. I would say first to distribute our sales as evenly as possible over the year, second, perhaps because today the market for another combination of reasons would be weak, and it would not absorb very many futures without seriously depressing it. Our salesmen would use their own judgment, as to how much they would put on without weakening the market, in the hope that some other day the market would absorb it more readily.

Q.—Mr. McPhail, the results of this last year, so far as you are concerned, have been results in a general market condition, which applies to wheat sales and to other things, of a practically steady decline or deflation, extending over quite a considerable period. Periods like that occur in the world from time to time. I think you will remember that there was one period from 1920 to 1923, corresponding in general very closely with this last period? A.—Not nearly so bad, or drastic.

Q.—Not nearly so bad. Is it then your opinion that the actual decline in wheat prices was not more abrupt and severe in 1920-1923 as it has been this year? A.—No, it did not fall to nearly so low levels.

Q.—But it fell from greater heights? A.—Yes.

Q.—The decline was severe? A.—Yes.

Q.—If a period like that occurred again could the policy that you have been adopting still be pursued. It would have exactly the same effect on you as you have experienced this last year, would it not? A.—It would depend on conditions. It would depend on the initial payments that we made. After all the futures market, selling wheat in the futures market, if the world's markets, that is actual markets, millers and importers, if these markets are glutted with wheat, selling wheat in the futures market is not putting wheat into consumption. You may be able to fix a price on it, but the more you put into that market and attempt to fix a price on it, when the real buyers of wheat are glutted, and filled up with wheat, the more quickly you are going to bring about a condition where that futures market is going to collapse, because of the fact that you sold it in this market. This market has no magic way of disposing of wheat. If there is too much wheat in consumers' or millers' hands already, your wheat is going to remain in Canada just the same, and it is going to ultimately perhaps go to create a much worse condition, if responsibility for carrying that wheat which has been hedged is in the hands of irresponsible speculators, rather than, in my opinion, sometimes in the hands of people who can, if they can sometimes adequately finance it and carry it themselves.

Q.—We quite recognize that the sales in the futures market do not necessarily dispose of the cash wheat? A.—No.

Q.—But the whole point of it is that by hedging sales in the futures market you sell the risk to others who are prepared to carry it? A.—And who may not be able to carry it very long, depending entirely on how much more you load on them.

Q.—You have never heard of a contract made in the futures market not being carried out to the letter? A.—No.

Q.—It couldn't fail, could it? A.—No, but I have heard of people who have bought wheat, and being sold out.

Q.—Those who speculate? A.—Yes.

Q.—But as a merchandising concern, if you hedged you would be absolutely secure that that contract will be carried out? A.—Yes, but it does not secure you in any measure on the small or large volume of wheat, you still have to fix the price on. Every bushel you hedge in the futures market, once that market is relieved by wheat going into actual consumption, is a load on that futures market, which is going to very seriously affect it to the extent that you push wheat into it, and is going to have a very serious accumulative effect on the price, if you try to establish it on succeeding amounts of wheat you attempt to put in.

MR. COMMISSIONER EVANS—I don't want to develop this too long, but all this is very interesting, to me at least. But, Mr. McPhail, we have had enormous crops in this country before your organization came into existence, and since, and all that hedging has been put out without disastrous results? A.—Never at a time when there was so much wheat in the world; that makes all the difference in the world.

Q.—Yes, in the world. We have larger crops in the last few years than we have had before? A.—Yes, much larger surplus and carry overs than ever before in the world's history.

Q.—But, for the time being, we have had larger crops in the world than this last year or two? A.—No, 1928 was the largest crop we ever produced in Canada.

Q.—I think you will find the 1930 world crop is larger still, if we can believe the Russian figures, but 1928 was certainly the second largest. However, we have the position that you have not hedged, but have used the other features of the market, which have been described to us as rather the speculative facilities and means afforded by that market. I was wanting to get just the point of view of your farmers in presenting this statement in regard to futures trading. I want to know whether they really approve of your use of the futures market. That is my point. I don't know whether I can conclude that they have been aware of it, or that they do approve of it, but the case for the futures market, as it has been presented to us, centres around hedging, and these other things merely help to provide a broad market, help to provide people who will carry the risk which is inevitable. And you have not used the central factor of that market, but you have used everything else, and have probably been one of, or perhaps the largest holder of open accounts in the futures market, but except in a trifling extent none of that hedging, and yet you are making representations to us as against the whole futures market. A.—No, I am not doing that.

THE CHAIRMAN—I don't think the witness is doing that.

By the Chairman:

Q.—I thought you were at first, but when I brought out by cross-examination what your exact attitude was towards it I found out a little differently. I think we can summarize it in this way, with three questions to you. Can you do anything in bulk for your farmers which they can't do in detail for themselves, in the futures market? A.—In bulk?

Q.—You are doing things for the farmers collectively? A.—Yes.

Q.—Is there anything that you can do for them collectively that a farmer could not do for himself if rightly advised, intelligent and the like? A.—No, I don't think so, I don't know all that is involved in that question.

Q.—The only thing I want to know is whether you would have any special privileges, whether you are allowed to perform operations that the farmer can't do by himself? A.—Not that I know of.

Q.—Is everything you do done for the farmers' interests, or for somebody else's? A.—It is done entirely for the farmers' interests, as far as I know.

Q.—Then the futures market as existing now can be used for the farmers' interest, apart altogether from the reflection of any advantages he may get by its use by the rest of the chain of people who handle the grain trade? A.—It can under the present system, yes.

Q.—The present existing futures market can be used for the farmers' interest? A.—I would say it has to be used.

Q.—And it is being used for the farmers' interest? A.—Yes.

Q.—Altogether apart from the reflection of anything done by others? A.—Yes.

Q.—I have taken you further now than you allowed me to go before. Previously as to the position of the farmer in relation to that you were an agnostic, and you didn't know, and you might know if you were furnished more details, but you did acknowledge that advantages to the rest of the chain of the grain trade could reflect back and benefit the farmers' interest? A.—It is possible on the market price.

Q.—Now you say that the futures market can be used directly for the farmers' own interests? A.—Under the system. We do not believe in the system.

Q.—Without qualification, not a better system, or a hypothetical system, but as it is now, and as it is being used, or has been used, in the direct interests of the farmer? A.—Well, we have to make use, as an organization of every available facility for disposing of our grain.

Q.—I only want to see whether the futures market could be used for the direct interest of the farmer, and you tell me it can be? A.—It can be, as long as it is there.

Q.—Don't qualify it. We have got away from the question of improvement of it. So we have two ways in which the futures market can be to the interest of the farmer: The first is, the fact that it relieves all the rest of the chain of the grain trade from risks, and part of the advantages that the rest of the chain get may be reflected in the price to the farmer. You told me that half an hour ago. Now, you have added to that the actual advantage to the farmer that could be got for him direct, either by himself or somebody acting for him. That is all I want to get. A.—When the futures market exists we have to use it in the way our judgment dictates, to endeavour to make the best use of it. We are compelled to use the facilities of the futures market as long as it does exist. I don't say it should not exist.

Q.—I don't see why you should be compelled to do it. You like to do it because it is in your interests, but you wouldn't be compelled to use it if it is not in your interests? A.—Well, it is in our interests as long as it is there.

Q.—Equally, it couldn't be in your interests if it wasn't there. Have counsel any questions to ask?

MR. PITBLADO—I would like to ask a question.

By Mr. Pitblado:

Q.—As I understand it, your suggestion is that the futures market in Winnipeg should be brought under Federal Government supervision? A.—Yes.

Q.—For the purpose, if I caught it rightly, to see if there are weaknesses or abuses in it? A.—Yes.

Q.—I also understand you to say that there was no proof, you have no proof that the futures market was detrimental—I am correct about that—I think you said that—that the farmers had no proof that the futures were detrimental, but they wanted it done? A.—The farmers simply have this proof that the basis on which the futures market operates is to a large extent speculative, and the hedges on the grain that is hedged in that market must depend on there being, that is if the price is to be maintained at all, depend on there being enough people either actual buyers of wheat or speculatively enough inclined on that particular day to take up these hedges, and we feel in view of that that is a very unstable foundation on which to base the price the farmer gets from day to day.

Q.—That is your argument of what you might call the weakness or abuse? A.—There may be abuses, because we don't know, as far as I know, there are no available complete records recording all transactions that take place in the futures market.

Q.—Your answer is, you don't know. A.—But we want to know.

Q.—You would like to know; you would like supervision to find out, that is correct? A.—Yes.

Q.—The next thing about that is this, you represent 84,000 farmers, and a large number of your farmers belong to the United Farmers of Saskatchewan. That is the United Farmers of Canada, Saskatchewan Branch? A.—Yes.

Q.—You know the president of that, Mr. McCauley? A.—Yes.

Q.—He appeared at Regina, and as I understood his evidence he advocated the abolition of the futures market, not just government supervision? A.—Yes, well——

Q.—Yet he was representing a large number of these same farmers that you now say you represent the view of? A.—I would say that we don't know definitely whether

the futures market should be abolished or not. Something would have to take its place before that came about.

Q.—But you see that Mr. McCauley had no doubt about it? A.—I am not concerned with what Mr. McCauley wanted.

MR. COMMISSIONER EVANS—Mr. McCauley wasn't sure what he wanted. I think he found that out before he got through.

A.—I think the farmers would be very pleased, the farmers I represent if there was some system that could immediately take the place of the futures market where they felt there was less dependence on ths speculative element in fixing or determining the price that they receive for the wheat from day to day.

Q.—You mean national control, or one hundred per cent compulsion? A.—Complete producers' control.

Q.—Mr. McCauley said he represented 100 thousand farmers.

MR. COMMISSIONER BROWN—No, he said 30 thousand, and after cross-examination it was about 5,000.

By Mr. Pitblado:

Q.—Take 5,000. Mr. McCauley expressed the view that there was a conspiracy on the part of the monied interests in the world against Canadian wheat. Do you subscribe to that? A.—I don't know anything about it.

MR. COMMISSIONER BROWN—I don't think it is fair to suggest that Mr. McPhail is bound by Mr. McCauley's view. A.—I am not bound by anybody.

MR. PITBLADO—I want to see, Chief Justice, we have different viewpoints in the West, and I want to see how far Mr. McPhail, the president of this large organization, subscribes to certain views you have before you.

THE CHAIRMAN—On the other hand, Mr. Pitblado, Mr. McCauley himself went around rather in a circle, and you could quote other sentences in his evidence which are rather different. I am not sure it is fair to put one set of his answers and not those in which he contradicted himself.

MR. PITBLADO—I will pass from Mr. McCauley, but I want to ask this. There was a gentleman in Calgary who said he belived and a number of other farmers believed that there was a combination between the Liverpool traders and the Winnipeg traders against the farmer about the price of wheat. You don't subscribe to that? A.—I have no knowledge of it.

Q.—You are not suggesting it? A.—I am not going to give any expression of opinion about things I have no knowledge of.

Q.—I am coming a little closer home. I am going to suggest part of these ideas the farmers get come from your organization. I am suggesting that in all frankness. A.—They do not come from me.

Q.—I don't care whether they come from you, they come from your organization. Do you know a gentleman by the name of W. B. Herbert? A.—Yes.

Q.—He is connected with your organization? A.—Yes.

Q.—In publicity matters he is part of your publicity organization, do you know that? A.—Yes.

Now, I have before me an article on the Canadian Wheat Pool, written by Mr. W. B. Herbert in the magazine called the "Readers' Digest," of April, 1931, copied from the "New Freeman." Have you seen it? A.—I saw it.

Q.—You are familiar with it? A.—No, I am not familiar with it.

Q.—This statement is made by W. B. Herbert, one of the publicity officials of the Pool to which you belong, at page 1129: "Skullduggery has been practised in the markets to depreciate the value of the Pool's wheat supplies and weaken the Pool's financial position."

THE CHAIRMAN—I am an Englishman, and when I read that word on board ship I went around to find an American to tell me what it meant. I understand it means practices and proceedings behind the scenes that are rather of a sinister character.

MR. PITBLADO—I think probably stronger than that; it certainly goes that far.

THE CHAIRMAN—Shall I say dirty work?

MR. PITBLADO—Dirty work, that is what it means.

THE CHAIRMAN—For once the Englishman is more expressive than the American.

By Mr. Pitblado:

Q.—I am going to ask, Mr. McPhail, whether you can give us any evidence of these statements put forth to the world by the publicity bureau of the Pool, of which you are president, any evidence of the skullduggery referred to here? A.—Personally I could not give you any evidence of skullduggery. I don't know.

Q.—And you have had three members, Mr. McPhail, ever since the Pool has been in existence, three members of yours have been members of the Winnipeg Grain Exchange, isn't that so? A.—Yes.

Q.—And you have had no report from them of any, if I will use this word, skullduggery, going on? A.—No definite report.

Q.—And your members are still there? A.—Yes.

Q.—Have they ever made any complaints to the Council of the Exchange? A.—Not that I know of.

Q.—Or that anyone else knows of? A.—No.

MR. COMMISSIONER BROWN—Have they been elected to the Council of the Exchange?

MR. PITBLADO—No. I asked if they had made complaints to the Council. There are certain people to whom they can make complaints if they feel something is wrong.

By Mr. Pitblado:

Q.—And that has been since 1925, hasn't it, Mr. McPhail? A.—Yes.

Q.—Coming back to your organization, you spoke to Mr. Evans about taking over the open lines when you sold cash wheat, but there was an occasion when you went in and bought outright wheat, long lines of wheat in the futures market, for the purpose of stabilizing the market, isn't that true? A.—Yes.

Q.—And your answer on one occasion to that was this, I am using your own language, "exactly the same as the United States Farm Board tried to stabilize the market." I am reading your own answer given to a question put to you. A.—Well, I can take it that is right.

THE CHAIRMAN—What were the proceedings?

MR. PITBLADO—In a lawsuit going on in Saskatchewan against a man by the name of W. A. Scott.

By Mr. Pitblado:

Q.—That answer was reported to be given on the 24th of March, 1931, you recollect that? A.—Yes.

Q.—That is correct? A.—Yes.

Q.—So you went into the market to stabilize the market exactly in the same way as the United States Farm Board tried to stabilize the market? A.—Yes.

Q.—Then, not only that, I understand your Pool went on to the Chicago market, on at least one occasion, am I correct? A.—Yes.

Q.—I am not going into it. I don't want to go into it. A.—We don't make any hesitation in saying we used all the facilities of the present marketing system to get the best price we can for our wheat.

Q.—If you have gone into the Chicago market that is pure speculation, because you are not delivering grain on the Chicago market? A.—That would be a matter of opinion.

Q.—You leave it at that and I am going to do that also.

THE CHAIRMAN—Is there any skullduggery in Chicago?

MR. PITBLADO—That is all I have to ask.

WILLIAM J. WARD (called).

By Mr. Sweatman:

Q.—You are President of the United Farmers of Manitoba? A.—Yes.

Q.—You have a short statement to read? A.—No, I have no statement to read.

By the Chairman:

Q.—Are you representing yourself, or representing any other body? A.—I am representing the United Farmers of Manitoba.

Q.—How many are there? A.—5,000.

Q.—And you are going to give your statement representing all their views? A.—As near as we can determine.

Q.—How have you gone about to determine it? A.—I have just completed a systematic canvass of the Province of Manitoba, where I have held 110 meetings.

Q.—Were they well attended? A.—An average of about sixty persons.

Q.—That is 6,600, and you have only 5,000 members. I suppose you invited friends to attend, anybody could come, open meetings really? A.—Yes. If you understood the formation of our organization, you would know these are meetings held under the auspices of our organization.

Q.—So you have people besides your members at your meetings? A.—Yes.

Q.—Do you take a vote on the resolutions? A.—No.

Q.—How do you get the sense of the meeting? A.—Well, we represent the United Farmers. These questions are a part of our programme.

Q.—I want to know how you come to the knowledge that all these people are behind what you say? A.—I am not here to make any definite statements. I am here today, like 90% of the other witnesses have been, to express an opinion.

Q.—I just want to know how far we can take your opinion as expressing the view of 5,000 farmers. I want to get on the notes the extent to which we can regard your remarks as the views which anyone of these 5,000 would come into the box and express. How did you put this to them? A.—They were open public meetings, attended in many cases by others besides farmers, where these matters were discussed frankly, and while

the purpose of those meetings was not for the purpose of securing a definite resolution on any one subject, because we have a long line of subjects on our programme——

Q.—You did not have any resolution on this particular thing put to them? A.—No.

Q.—But in good faith you believe you are in a position to represent the majority of the views of the 5,000? A.—I do.

By Mr. Commissioner Brown:

Q.—As I understand you, Mr. Ward, your meetings were all open to discussion? A.—Quite.

Q.—It was not simply a case of one man addressing a meeting? A.—Our meetings were thrown open to discussion.

Q.—And as a result of those discussions you were able to gauge the views of the meeting? A.—Our meetings were largely conferences.

By the Chairman·

Q.—At which a number of people spoke? A.—Yes.

By Mr. Commissioner Evans:

Q.—And what was announced as the main subject of the conference? A.—The problems of the United Farmers of Manitoba.

Q.—Was that announced? A.—Yes.

Q.—Hundred per cent Pool? A.—No.

Q.—Just a general announcement of the problem of the farmers? A.—Yes.

By the Chairman:

Q.—Did you discuss at every one of the hundred and ten meetings the question of futures marketing? A.—No.

Q.—At how many of the meetings did you discuss it? A.—I don't know. Our subjects were varied from time to time.

Q.—Take the number of speeches that were made at the hundred and ten meetings, would there be an average of nine or ten speeches at each? A.—Oh, no.

Q.—Not as many? A.—No.

Q.—Supposing there were five, that would be five hundred and fifty speeches. How many would refer to the question of futures marketing? A.—Perhaps at thirty-five or forty per cent of our meetings this question was under consideration.

Q.—So we have not got the majority view of the 5,000 farmers of these subjects of the futures market? A.—I think so.

Q.—Well, anyway, you may proceed with your evidence. A.—I would like to say at the outset that I recognize, and I believe the Commission does also, the disadvantage that the farmer is at in attempting a discussion of options and futures trading, but I do believe, in fact, I am sure, that thousands of farmers in this province have come to a well defined conviction that the Winnipeg Grain Exchange does not operate to the advantage of either producer or consumer.

Q.—Without exactly knowing why, or having any exact facts, the members have come to a definite conviction? A.—Yes, based upon years of experience and observation.

Q.—It may be perfectly right. It does not follow we are wrong in the beliefs we come to, because we cannot give evidence for them. A.—Quite right.

Q.—Will you tell us what views the 5,000 farmers take about the futures market? A.—One of the reasons that they have come to that conclusion is based upon certain evidence. For instance, I got a telephone call the day before yesterday at four o'clock, inviting me to come and give evidence before this Commission. Within one hour after that time I had gathered some very interesting information that has caused farmers to come to this conclusion. For example, one man I called upon—and this man was not a farmer, but a business man—gave me the results of three years' trading on the Winnipeg Grain Exchange. In 1927, he made a profit of $2,500; in 1928, he lost $2,600; and in 1929, he lost $3,900—lost his home.

By Mr. Commissioner Brown:

Q.—He was not a farmer at all? A.—No.

Q.—Perhaps the farmers would benefit by his experience. A.—The next was a farmer. I know this man quite well. He has been struggling for the last thirty years to accumulate a bank account. He thought he would take a flier in the market in 1929 and lost $6,000, all he had. Another man, also a farmer, who had accumulated a little account, he took a flier and lost $7,000.

By the Chairman:

Q.—Had these gentlemen ever taken fliers before in any previous year? Did they tell you whether they had been in the market before? A.—The third man had been operating, or using the option market, for two or three years previous. He did not tell me the result, but he indicated that he had lost money both years, in 1927 and 1928, and in 1929 he told me he had lost $7,000.

Q.—These were not operations essential to farming? A.—I would not say so, no. The fourth man told me he made $6,500 in 1928, and lost $6,000 in 1929.

Q.—He was pretty lucky, was he not? A.—I think he was.

By Mr. Commissioner Brown:

Q.—We have had all kinds of evidence to show that a great many farmers and a large proportion of the public have gone into this job of speculating in futures and have lost, if that is what you want to prove. A.—This perhaps leads to something else I have to say.

By the Chairman:

Q.—There were a large number of farmers went into the market in those years and lost money? A.—Quite right.

By Mr. Commissioner Evans:

Q.—Have you come to the end of your list? A.—One more. I gathered all this in about half an hour. In 1927—here is a man who is an elevator operator—in 1927, he went into the market and made $6,000; in 1928, he went into the market and made $8,000; in 1929, he just lost $15,000.

THE CHAIRMAN—He was rather lucky, he was only one thousand out.

MR. COMMISSIONER EVANS—May I suggest before you again use that list you add another and just check up the Pool loss as against what it made in the year? A.—We might ask what the grain trade made as well.

Q.—You can get that information? A.—But we could not get the other.

THE CHAIRMAN—This is not cutting any ice. It is wasting time to discuss losses in any country in 1929? A.—The reason I went to the trouble to get this information was I was following the evidence and I gathered there was a disposition on the part of the so-called speculator to advise the farmer that he was being subsidized by the professional speculator. I want to point out this, those who have been subsidizing the farmer.

Q.—The evidence was where the farmer stayed out of the market himself his price did not improve with the operation of the speculative market outside. A.—Repeated statements have been made both before this Commission and other times by the trade that they have been, so to speak, subsidizing the farmer through this process.

Q.—No statement has ever been made by anyone to that effect? A.—Do you believe it is a sane and moral business to unload the responsibility that the trade feels incapable of carrying on to the stenographers, housewives, clerks and credulous farmers?

Q.—We all blame our stenographers for something or other? A.—Could the operation of the market be carried on without fluctuations?

Q.—Are you asking me? A.—I would like to put this question to Mr. Evans.

Q.—That is not the usual way? A.—We believe as farmers that the option market would simply fall immediately if you removed from it the daily fluctuations that create the incentive that brings the housewife, the stenographer, the clerk and the farmer, to come into the market and buy two or three thousand bushels of grain. Speaking for the farmers of Manitoba we resent very much any thought that any class in this country is subsidizing us in that method. We believe in a policy of grain marketing whereby the producers will carry that responsibility themselves.

By Mr. Commissioner Evans:

Q.—You don't except the tax payers' of these three provinces from that? A.—I think that is an unfair inference at this point.

Q.—I do not want to be unfair. A.—I think the circumstance have been so well explained before this Commission, the conditions prevailing since 1929.

By the Chairman:

Q.—You think the system ought to be that the purchaser carries the risk? A.—Absolutely. It has been referred before this Commission that the option of the future markets was an insurance. I think my remarks up to the point have proven that the insurance security is not of the professional speculator at all, not of the institution, but by the people throughout the country who take the responsibility of going into the market and carrying a risk.

Q.—Your remarks have not proved that. You have just made the statement. There is nothing you have said that has proved it. A.—I am expressing an opinion as the others. We are told there are 463 seats on the Winnipeg Grain Exchange, some of them, I believe, are negative. Those must be paid for and carried by some one. We are told there are twenty-three cash grain brokers. We are told there are seventy-nine futures traders on the market. We are told there are about 2,000 people engaged. Now, who is the one who is paying for all that? Now, who is it?

Q.—Who is it? A.—We believe it is the producer, the consumers of this country.

Q.—What about the consumers in England? Are they paying anything? A.—I am not prepared to say, but I think the marjority of the producers of this province are in favor of a marketing system where the responsibility will be entirely placed upon the producers themselves. We believe the Winnipeg Grain Exchange to be simply a fifth wheel in the cart, and an entirely unnecessary one and a very costly one—evidenced by the fact there are 463 seats, and sometimes very long prices are paid for these seats—by the fact there are 2,000 employees who have to be provided for and their salaries have to be maintained out of the grain trade in this country. We believe if the present Pooling system is not adequate, if it has failed, we should have some other national marketing

system where the responsibility would be carried by the producers of the grain itself, rather than to be unloaded onto a credulous people over the country. That concludes my statement, Mr. Chairman.

THE CHAIRMAN—Q.—In short you think the farmers should carry the risk in prices and not the general public? A.—Yes.

Q.—And that the grain trade pay remuneration for services which are not repaid by any added value in the product? A.—Yes, that is my belief.

C. RICE-JONES (called).

By Mr. Sweatman:

Mr. Rice-Jones, just tell your qualifications to the Commission? A.—I am not in the grain business, and I am not connected with the farmers' organizations at the present time, but I have been growing grain for twenty-five years, and I was an officer of a farmers' company for fourteen years, and a member of the Canadian Council of Agriculture for twelve years.

By Mr. Commissioner Brown:

Q.—What company were you an officer of? A.—United Grain Growers, I was vice-president for fourteen years. The point I wish to deal with has been pretty well covered this morning. I feel the evidence given by some of the representatives of the farmers organizations and claimed to be the opinions of so many farmers is hardly fair. My experience is, both as a farmer and as official of the Farmers' Grain Company, that the futures market is of a distinct benefit, both to a farmer in marketing his grain individually, and also to the trade and the whole general handling of the grain business. Personally, I have used the futures market occasionally in connection with the marketing of my own crop, and from that standpoint I find it of distinct assistance. My experience as an official of a farmers' company was, it was of distinct benefit to the farmers as a whole in that it enabled us to handle the grain on a much narrower margin of profit than would otherwise have been the case. Dealing with the other point, with the lack of confidence of the farmers in the futures market, that question you pretty well covered this morning, but I question whether some of the witnesses actually represent the opinions of as many farmers as are members of their organizations. In my experience as an official of a farmers' company, I know in one particular instance we checked up. We had a resolution sent in from a local group, and in checking up we found there were five men out of sixty present at the meeting, and that three voted for it and two against it.

By the Chairman:

Q.—So you had a majority of one on a membership of sixty? A.—Yes.

Q.—The five who were present? A.—They were shareholders of the company.

Q.—Were they good representative members? A.—I could not say, I don't remember.

Q.—At any rate, as far as complete representation was concerned, it was quite fallacious? A.—Absolutely, and the greatest difficulty we had, when I was an official of that company, was to get the shareholders to turn out to meetings, and on a check-up we found the resolutions that came in did not represent the views of the shareholders in that locality. Of course, from a technical standpoint it was their fault for not being at the meetings. While I am not in the grain business, I have no connection with the trade and I am not connected with the farmers' organizations, many farmers come to see me in the city, and I am sure there are many farmers who are not represented who do not agree with the views expressed that the futures market is undesirable. I know years ago I had that idea myself when I was living on the farm there might be something wrong, but in the last twenty-five years I have had very good opportunity of sizing up the situation and hearing a lot of evidence when different Commissions have been sitting and so on, and I feel this way about it. The Grain Exchange firms, are a convenient point of attack for anyone who wants to stir up some excitement at a farmers meeting. These attacks are often obviously unfair and not based on facts. There have been many investigations of the Grain Exchange, and there has never been anything of a serious nature divulged yet, and I think we are getting too many regulations altogether. I would like to see a free and open market. Let us try it for five years and see what happens.

By Mr. Commissioner Brown:

Q.—Too many regulations where? A.—In everything. We have a government which has passed seventy bills.

Q.—That is getting away beyond our scope. We are not deciding regulations that affect the grain exchange. A.—The Canada Grain Act has been gone over very completely in recent years.

Q.—Do you say the Canada Grain Act has not been enacted in the interests of the producer of this country? A.—No, sir, I say it has.

Q.—If the regulations have in the enactment of the Canada Grain Act been in the interest of the producer it must have been necessary to enact it? A.—I am not saying it wasn't; I am saying we have too many regulation.

By the Chairman:

Q.—You would say we have got too much of a good thing? A.—The tendency is to keep on asking for new legislation in these matters, and I would like to say——

By Mr. Commissioner Brown:

Q.—Just let us stick to this thing for a moment. The Canada Grain Act from its inception has been amended from time to time, hasn't it? A.—Yes, I helped to amend it.

Q.—Do you say these amendments are not justified? A.—No, I took part in securing some of those amendments.

Q.—Let us go deeper still. Do you say that the origination of the Canada Grain Act and its various amendments from time to time has not been necessary in the interests of the producer as against the activities of the grain trade? A.—I think that the Canada Grain Act as a whole is a good Act, but I think some of the legislation that has recently been passed is not in the interests of the producer.

Q.—You mean affecting income tax, or what? A.—No, I mean affecting the mixing of grain.

Q.—That is a big open issue?

MR. COMMISIONER EVANS—That is in the Canada Grain Act.

By Mr. Commissioner Brown:

Q.—Generally speaking, you agree that the Canada Grain Act has been necessary in the interests of the producer? A.—I think the Canada Grain Act is a good Act on the whole.

Q.—If the Grain Exchange, and the operations of the Grain Exchange are all right in the interests of the producer as well as the trade, can you see any particular reason why the light of day should not be let in on them, that is all. A.—I don't just get that. This Commission is investigating the futures trading.

Q.—No, I am asking you that question. A.—I would like to answer it in this way, this Commission is investigating futures trading. If there is anything patently wrong with the way it is carried on this Commission will no doubt find it out.

MR. COMMISSIONER BROWN—I doubt if we will find it out.

THE CHAIRMAN—There may be things not all that we should like in the system of futures trading, but if we find that the system just as it is is in favor of the producer, that is our remit. We haven't got to say which is the most perfect system, and what will give the greatest benefit, but we are on the borderline of so many people who say if the system was slightly amended it would be in the interst of the producer. You told us there was a time in your less regenerate days when you thought there was some skull-duggery, but now you have changed your mind. A.—I didn't go quite that far. I feel, when you attempt to regulate futures market you are starting to interfere with the marketing of a product, The Grain Act has wholly to do with the physical handling of the grain. The Grain Act in the main regulates the physical handling. I would like to see a free and open market under the regulations that exist at the present time, and see how we would get along.

By Mr. Commissioner Brown:

Q.—What regulations exist at the present time other than the internal regulations of the Exchange itself? A.—I don't want to see any regulations in connection with the actual selling of the grain that will hamper the flow on the basis of supply and demand.

MR. COMMISSIONER BROWN—Quite. I think we all agree with you to that extent.

By the Chairman:

Q.—You don't want to see any bureaucratic action? A.—No, sir.

Q.—Which will interfere with the day by day quick action of the market? No, sir.

By Mr. Commissioner Brown:

Q.—But you do admit that the grain produced in this country, at any rate that part of it that is exported to the markets of the world, largely that part of it consumed by the miller in Eastern Canada, is dealt with through the Winnipeg Grain Exchange, is that not right? A.—Some of it.

Q.—Practically all of it, apart from Pool operations? A.—Yes.

Q.—So that the farmer, at least outside of the Pool, and he is the man I am thinking of for the moment, is very much interested in what goes on in the Grain Exchange in connection with the marketing of his grain, is that not right? A.—Yes.

Q.—Insofar as that market in any way reflects back to the producer, or the price fixed by that market is reflected back to the consumer; he above all persons is interested, that is correct? A.—Yes.

Q.—So that after all, all he is asking to do, as I see it, and all that he is asking for, is that he might in some way know how the price is fixed, and in what way it is regulated, and is there any operation in the Exchange that is not perfectly right and perfectly proper in the legitimate business, and in that way effective in reflecting to him the price that he ought to get. That is his position, as I understand it. Can you see any objection to that? A.—The question is, how many farmers feel that way about it.

Q.—We find a great many farmers feel that way about it.

MR. COMMISSIONER EVANS—How many non-Pool farmers have appeared before our Commission?

MR. COMMISSIONER BROWN—I would say that the expression of the farmers' organizations, that have appeared before us pretty well reflect the views of the Pool farmers and non-Pool farmers as well. I may be wrong, but that would be my judgment in answer to that question.

By the Chairman:

Q.—Would you say that the farmers who feel there is something they would like altered are more articulate than the others? A.—Yes.

Q.—And the people who haven't very much grievance, have not much to say? That is pretty much the same in all walks of life? A.—Yes.

Q.—So when we speak of the farmers view we tend to give him one, or extract it from him, where he wouldn't otherwise volunteer it? A.—That is my point.

By Mr. Commissioner Brown:

Q.—Have the farmers not expressed themselves over a period of years in this respect in various organizations, I mean before any Pool ever came into existence? A.—Well, there have been expressions by officials.

Q.—No, not by officials, I mean by their organizations in convention throughout these prairie provinces covering the period of twenty-five or thirty years? A.—No, I think that statement is much too sweeping, sir.

Q.—How much too sweeping is it? A.—Well, that is very difficult to say over a period of twenty-five years. But my experience as an official of the farmers organization was that men who were inclined to be radical in their views would go out and hold meetings with a certain object in view, and of course, it is always reasonably easy to get support for criticism of an organization like the Grain Exchange.

Q.—Let me put it in another way. You were an official of the Grain Growers Grain Company for a great many years? A.—United Grain Growers, Limited.

Q.—Anyway, it is a farmers' organization? A.—Yes.

Q.—And it came into being for what purpose. A.—Because the farmers were not satisfied with conditions in the grain trade.

By Mr. Sweatman:

Q.—What business are you engaged in now? A.—A bond dealer. I am representing myself only.

Q.—And an alderman of the City of Winnipeg? A.—Yes.

By the Chairman:

Q.—I really understand the result of your long experience in studying the psychology of the farmer in various capacities to be this, that there is a very considerable section of the farmers who have not got this question as a burning grievance that makes otherwise silent and inarticulate men come forth, but there is a certain section of the farmers, some of them radical in their views, who will amass evidence and knowledge for public speech, and there are some who have generally stated the thing, and those three are the people from whom this sentiment has been existing for so many years, and from whom the dissatisfaction really emanates? A.—Yes.

Q.—But to say that that would represent the view of the majority of the farmers would, in your opinion, be a gross exaggeration? A.—Yes, sir.

ANDREW CAIRNS (called).

By the Chairman:

Q.—You have put in a statement, which I will call EXHIBIT No. 43, and it is made up on behalf of the Canadian Wheat Pool, together with statistical appendices? A.—Yes.

By Mr. Sweatman:

Q.—What is your position with the organization? A.—I am statistician to the Central Selling Agency of the Canadian Wheat Pool.

Q.—You are going to read the first part of your statement? A.—Well, not all of it. It is headed: (Reading)): "Statement Made on Behalf of Canadian Wheat Pools to Royal Commission Enquiring Into Dealing in Grain Futures." A very brief account of the Pool's organization and methods of operations is given as Appendix I. of this statement.

"The Pool does not hedge its receipts of grain because we believe that on the average, in the long run, it pays the farmer in a group to carry himself, the risk of price fluctuation, until his grain is moved into consumption. In other words, we do not subscribe to the thesis that there is a group of philanthropists who continue to put more money into speculation than they get out of it, thus making possible a higher price to the producers. If speculation is to continue to serve the economic function of risk assumption, the speculators as a whole must, in the long run, be paid for their services. Our view is that by collective action the farmers can carry their own price insurance; benefit if prices rise from the time the grain is delivered at the country point until it enters into consumption and, conversely, bear the loss if prices fall; and, incidentally, save whatever cost must ultimately be paid to the speculator for his services.

"Parenthetically, we might add that the Australian Pools follows our practice with apparently satisfactory results. The Victorian and New South Wales Wheat Pools never hedge. The South Australian Pool hedges occasionally in Liverpool. We do not know definitely whether or not the West Australian Pool hedges at some times, but we believe that it is not their common practice.

"We may illustrate our point of view by referring to Winnipeg wheat prices from 1909 to date. During the first three months of the marketing year, the September, October, and December closing cash price of No. 1 Northern wheat, basis in store Fort William,

averaged during the 1923-24 to 1927-28 crop years $1.35¾; during December-February of the same years $1.43⅞; during March-May of the same years $1.45⅝; during June-August of the same years $1.48¾. In other words, the farmers who carried their own risks and sold their wheat at the average price during June-August got 13 cents per bushel to defray their carrying costs. It is interesting to note that during the crop years 1924-25 to 1927-28, or the fouryears of the 1923-27 period referred to above, during which the three wheat pools were operating, the total carrying charges incurred by the wheat pools, including the cost of carrying wheat in country elevators, in transit, and in terminals, including all storage, insurance, and interest charges, on the basis of the total handlings of the three pools was 3.15 cents per bushel. Incidentally, a very large part of the carrying charges were paid to Pool owned facilities, which facilities had to be provided to handle the crop, in any case. We do not mean to infer that the difference between 3.15 cents and 13 cents could have been saved by the farmer who carried his grain until the June-August period. As a matter of fact, his carrying charges in so doing would have been appreciably more than the average Pool carrying charge mentioned, as, of course, it refers to the total handlings of the Pool, which were being continually marketed at a fairly even rate throughout each year. We have selected the years 1923-24 to 1927-28 as a typical case covering five years, during which time probably less artificial disturbancs prevailed than in any other five-year post-war period. The September-November prices during 1909 to 1913 averaged 93⅝ cents; the December-February price 91½ cents; the March-May price 95 cents; the June-August price $1.00. During the six years 1914-15 to 1919-20 the September-November price averaged $1.77½; the December-February price averaged $1.90; the March-May price averaged $2.05⅝; and the June-August price $2.07½. We realize, of course, that this period must be considered as exceptional, owing to the fact of wartime control measures. Making full allowance for the artificial nature of conditions during that period, it is significant, from the point of view developed above—namely, that in the long run it pays the farmer to carry his own risk—that the average price during the six years in June-August, or the last three months of the selling year, was 30 cents per bushel higher than the average during September-November, or the first three months of the selling period. During the three-year period of declining prices, 1920-21 to 1922-23, farmers who held their grain over from the September-November period, on the average would have lost money. The September-November average was $1.55; the December-February average $1.40¾; the March-May average $1.48; the June-August average $1.41⅝. It should be emphasized, however, that the change in price in the year 1920-21, following de-control, exercises a very great influence on the average for the three-year period. For instance, the September-November price in 1920-21 was $2.36¾ against the June-August price of $1.84. During the crop year 1928-29, the average September-November price was $1.20½; the December-February average $1.21¾; the March-May average $1.21, and the June-August average $1.45⅜. The crop year 1929-30 was a very striking, although very unusual, example of a bad year for farmers to carry their grain; as the September-November average was $1.41⅜; the December-February $1.28½; the March-May average $1.08, and the June-August average 97 cents.

"As this statement was prepared on very short notice, we regret that we did not have time to deflate the prices quoted by an index of the value of money. However, as the figures are given in the form of averages, we do not believe deflating the figures would substantially alter the conclusion which may be drawn from them—namely, that on the average, in the long run a study of prices, and necessary carrying charges, will show that it pays organized farmers to assume the risk of carrying their crop until it is moved into consumptive channels."

By Mr. Commissioner Evans:

Q.—Then, you mean they should not sell anything in the fall at all? A.—No, certainly not. I mean on the average it would pay them to assume their own risks and market it evenly and hold some of it.

By the Chairman:

Q.—You judge that on the prices that have existed? A.—Yes.

Q.—But that is if it is influenced by another system? A.—Yes.

Q.—You are not entitled to say logically you would get those same prices and the same results if you universalized that alternative? A.—I would say it would be stronger because if the crop was marketed uniformally you would have a different proportion.

Q.—Your alternative system would give you better prices? A.—Yes.

Q.—You say no farmer would be subject to any kind of pressure? A.—They perhaps would. I am merely developing an argument insofar as they could carry their own risks rather than turn it over to someone else.

WITNESS—Reading: "We submit that the futures market is more important as a risk bearing institution for grain dealers and millers than for farmers. Since the inception of the Pools, Pool farmers have carried the risk of price fluctuations of approximately 50 per cent, on the average, of the Western Canadian wheat crop. As only approximately 50 per cent of the non-Pool wheat, or, roughly, 25 per cent of the crop marketed, is sold as street wheat, as the other 25 per cent of the crop is largely consigned wheat and is not as a rule hedged or sold until after it reaches the terminal elevator, and as apparently not all of the 25 per cent of the crop bought on a cash or street basis by private companies is hedged, it is easy to see that a much smaller percentage of the total crop is hedged than is commonly believed.

"It has been submitted that dealing in grain futures reacts to the producer's benefit in giving him a higher price for his grain. We submit that trading in futures, and speculation, undoubtedly at times give some producers higher prices, and at times lower prices. On a priori grounds, we believe that in the long run, trading in wheat futures costs the farmer at least part of the amount of money which is necessary to pay the cost of risk assumption by the speculators. We contend that trading in grain futures accentuates price fluctuations, which is not in the interests of producers. The following data, taken from U.S.D.A. Technical Bulletin No. 79, we interpret as at least partly substantiating our contention." I will not read the figures.

By Mr. Commissioner Evans:

Q.—Did you investigate to see whether the volume of trade in futures was also accompanied by higher prices? A.—Yes, in some cases it is. I am merely coming to how far you would have to go to find which is cause and effect.

Q.—I am not referring merely to the fluctuations, but to the levels? A.—Yes, in 1925 you would have a good deal higher prices which would naturally call for dangerous fluctuations than you would expect when prices were lower.

WITNESS—Reading: "We do not contend that one could conclude from the above figures that there was a direct cause and effect relationship between the volume of trading in wheat futures and price fluctuations. We do believe, however, that the figures given constitute at least prima facie evidence that the volume of trading in futures is at least an important contributing factor to the insurance in price fluctuations associated with increased volume of trading. In this connection, we wish to quote Dr. J. W. T. Duvel, Chief of the Grain Futures Administration, who stated in a radio address delivered on October 15th, 1929:

"A large volume of trading is always accompanied by a wide price movement. This may be either an advance or a decline. For example, the largest single day's trading in wheat futures on the Chicago Board of Trade was on July 15th of this year (1929), when total sales amounted to 149,587,000 bushels. On that date, December wheat worked through a range of seven cents, and closed eight cents higher than on the previous day. The second largest single day's trading was on March 13, 1925, when 149,581,000 bushels of wheat were sold for future delivery. On that date, the price of May wheat worked through a range of 13½ cents and closed 14¾ cents lower than the closing price of the previous day."

"We are interested in seeing that the market moves in response to legitimate factors of supply and demand, and is free from manipulative influence. Only on such a market can producers depend for a fair and accurate reflection of prices at all times. The farmers desire a greater degree of price stability than now exists and supply and demand factors growing out of actual grain conditions should have a relatively greater, and futures trading itself, a relatively less importance in determining grain prices.

"As an illustration of the influence dealing in grain futures has upon the price fluctuations, take the autumn of 1929, when speculation carried Winnipeg prices to highly artificial levels, as compared with prices in markets other than those in the United States. In August, 1929, the Winnipeg future averaged 6.2 cents per bushel higher than the Liverpool future; in September 8.1 cents higher; in October 6.2 cents higher; and in November the Winnipeg future averaged 5.6 cents above the Liverpool future. We might add that price fluctuations in Canada and the United States are much more violent than in Liverpool, which market has a relatively very small volume of futures trading."

By Mr. Commissioner Evans:

Q.—Have you really established that? A.—Yes, I will bring the figures out later on.

"A great deal of the body of the evidence submitted before the Commission, and the discussion developed from the same, has been to the effect that the price-making mechanism of trading in grain futures results in a price which accurately reflects the co-ordination of supply and demand conditions. Without going into the obvious fact that the mere statement that supply and demand determine prices is a truism—as there are a great many supply and a great many demand factors—we wish to venture the opinion that the above mentioned evidence and discussion is based on the assumption of a free market, which assumption is untenable, in view of the numerous restrictions and artificial conditions the world over, including ever increasing concentration of buying, and considerable concentration of buying, and considerable concentration of selling. The matter is too involved to treat at all adequately in this brief statement so we will merely leave it as a challenge regarding the validity of the basic assumption of a good deal of the evidence and discussion regarding the price-making mechanism of futures trading, and the co-ordination and inter-relation of different markets. In this connection, we wish to refer the Commission to Appendix II., of this report, entitled, 'Governmental Policies Affecting the Marketing of Grain.' The report was not prepared for the purpose of submitting it to this Commission, but as it gives a chronological summary of most of the important control measures and governmental policies, such as milling restrictions, tariffs, etc., we think it will be of value, and has a very direct bearing on our contention that the assumption of a free market is, to a large extent, invalidated by present conditions. The report was prepared in the latter part of February; since then several changes have taken place, such as decreases in the amount of domestic wheat required to be milled in Germany and France, and changes in duties, largely increases, in some countries."

By the Chairman:

Q.—In your qualification of the word "free," do you place more stress upon such conditions and restrictions as tariffs, or on combinations amongst purchasers and dealers? A.—You mean which do I consider the more important?

Q.—Yes, which is the one you really have in your mind? A.—I think the more important is the combination of purchasers and dealers. The other has a very direct bearing in that the uncertainty in regard to changes in tariff and milling restrictions reduces the flow of money in to take up hedges or keep them from buying for forward position.

Q.—The uncertainty, not the existence? A.—The uncertainty, as to what is going to happen.

Q.—If you had varying tariffs in different countries, and you knew they were particular obstacles, that wouldn't upset your free market? A.—Quite right.

Q.—The question of freedom is a question of degree. At what point of the combination does freedom vanish? A.—I wouldn't want to state any definite point, only I would say that the general tendency all over Europe for collective buying has a bearing on it. For instance, a few mills in Great Britain buy a very large percentage. Norway buys through government manipulation, and Germany is very heavily involved in grain marketing, in Sweden all the mills buy through one agency. In Great Britain there are four principal groups.

Q.—Do you think that represents a really free market from your point of view, that is an inordinate mass of small purchases? A.—Yes, insofar as it protects the continuity of the money coming in to buy for forward position.

By Mr. Commissioner Evans:

Q.—You don't say there are only four purchasers in Great Britain? A.—No, I say the four constitute a large fraction of the total.

Q.—Then you are not saying those four buy all their grain direct? A.—No, some of them buy direct, and some not.

Q.—Then it is only a question of their being four instead of forty, or whatever number existed before this combination was made. Has that necessarily materially altered the British market, as those four do not buy all their wheat direct, is that any material change in the situation? A.—I would say it changes the degree of buying, and place of buying.

Q.—It would have some effect, of course, perhaps not very great.

By the Chairman:

Q.—Is your argument that the fact that you have combinations of buyers not sufficient to destroy competition and become monopoly, completely invalidates the argument about futures trading in this country? A.—No, I wouldn't say that. I would merely say it means we have to add a qualification.

Q.—What kind of a qualification? A.—A qualification that the futures market is not as sensitive or efficient a price registering mechanism as it would be if the underlying implied assumption were valid.

By Mr. Commissioner Evans:

Q.—Have you ever, Mr. Cairns, put the facts together to see whether or not it is an accurate register. We have had charts submitted to us here showing price levels in relation to world crops. Have you ever worked those out? A.—Yes, I have a table dealing on that very shortly, and I would be glad to discuss it.

By the Chairman:

Q.—I am just interested in this. It is a very important economic development if you are going to be able to hold up more registrations of supply and demand by the concentration of buying in England or in Europe. If you have the converse of it, and had the concentration of selling in the hands of pools, farm boards and the like, you may differ according to the respective strength of these two giants on either side, and you may have prices much more or much less than they would be in the free market? A.—Possibly, yes.

Q.—I am not quite sure of the bearing as becoming less free because of the concentration only of that side, or only because of the concentration of this. A.—I would say both. I would say the Farm Board and the Canadian Wheat Pool itself both have an important bearing on it.

Q.—When you have selling by one or two big agencies here, and buying by one or two big agencies there, your argument is that futures and grain exchange will not be any longer necessary? A.—I don't think that has a specific bearing on this, but I would say that brings about a condition which means for some time more irregularity. You haven't got the continuity of flow into your market at the time the farmers are delivering the grain to take it up. It jumps from place to place.

Q.—I need not necessarily jump, need it? A.—For instance, a few years ago Europe used to buy for forward position to a much greater extent than she does now, and as I understand it, it was common for European mills to make considerable purchases in the fall of the year when the farmers were delivering their grain, to take care of their flour grindings later on in the year. That practice has decreased to a large extent, and they are waiting until they make the flour, and are buying largely from hand to mouth.

Q.—The burden of your evidence is that a good deal that is told is tending to be involved with the process of consolidation on both sides? A.—Yes.

"At this point, we would like to merely call the Commissioner's attention to the very great changes which have occurred in the buying policies of European countries during the recent years, relating to the great and very general decline of speculation in grain in Europe, particularly on the Continent; the universal preference of European countries to buy only from hand to mouth, and make no extensive commitments in the way of purchases in forward positions. These changes obviously have an important bearing upon the Winnipeg futures market and the price received by the producers of grain, particularly those who sell during periods of heavy deliveries, when there is insufficient and discontinuous buying of hedging sales."

By Mr. Commissioner Evans:

Q.—Is it a fact that the market is insufficient and discontinuous in the fall at any time? A.—I will bring that out a little later in my text.

Q.—All right. A.—"The view has been advanced that the balance and adjustment of supply and demand factors through the medium of the futures market gives the farmer daily the 'value' of his grain. We are aware of the fact that in the long run the price paid for grain must approach the cost of producing it. It is also true that once grain, or any other article, is produced in excess of the effective demand it must, if competition is free, be sold below the cost of production. Without going into the involved and controversial question of what it costs to produce wheat, we can all agree that the present price of wheat in free markets is very far below what it can be reproduced for in any country in the world.

On the basis of the Liverpool quotation for No. 2 Northern on March 31, 1931, the net return to the grower at the typical country point in Western Canada was 37¾ cents per bushel. On the same day, and same basis, the net return to the grower for his wheat in bags at the country station in South Australia was 38.27 cents per bushel at the par rate of exchange, but only 29.27 Canadian cents at the prevailing rate of exchange. If we deduct the average cost of hauling from the farm to the railway station (ten miles) of 6½ cents, the cost of bags at five cents, and the average cost of threshing eleven cents, we get the sum as a net return to the grower for producing and harvesting the crop of 12.65 cents per bushel at the par rate of exchange, the equivalent of 10.65 Canadian cents. The detailed computations on which these figures are based are given in Appendix III., of this report. In this connection the following table may be of interest."

I shall not attempt to go into that table, the whole idea being to show that despite the fact that there has been a tendency for the amount of wheat unconsumed within a given year to increase, and that in my opinion if this year you had a continuous speculative demand in the form of risk carrying that the disparity between the price and the percentage which is not likely to be consumed would not be so wide.

THE CHAIRMAN—It does not look as though we will get through reading this document word by word in time. We can give more study to this. I would like to know if counsel have read this and would like to put any questions on it.

MR. PITBLADO—We have not even seen it, so we cannot ask anything.

THE CHAIRMAN—You have no questions to ask up to this?

MR. PITBLADO—No. I would suggest this: in view of what is being put in by the Pool here, that I might send to the Commission a chart showing the prices. I am not much interested in what Mr. Cairns is discussing, a lot of theory, without showing the prices paid by the Pool on specific dates through a series of years, and the actual cash prices on the market throughout those years. I would like to send that to the Commission. I did not know this was going in.

THE CHAIRMAN—I think it would be quite right to give it any consideration which may arise from this, that you have not had the opportunity of cross-examining on.

MR. SWEATMAN—I did not know Mr. Cairns was going to give evidence until this morning.

MR. PITBLADO—I have one or two small matters to clear up, but they are very short.

THE CHAIRMAN—Well, will you bring out the points which you wish to refer to. We will read the rest of this very carefully. We will study this very carefully, the remainder of it. Much of it consists of various quotations from books which we are acquainted with, and from people who are posing for the moment as authorities on gambling. I think you need not continue, unless you have something you wish to complete.

THE WITNESS—I would prefer to leave it as it is.

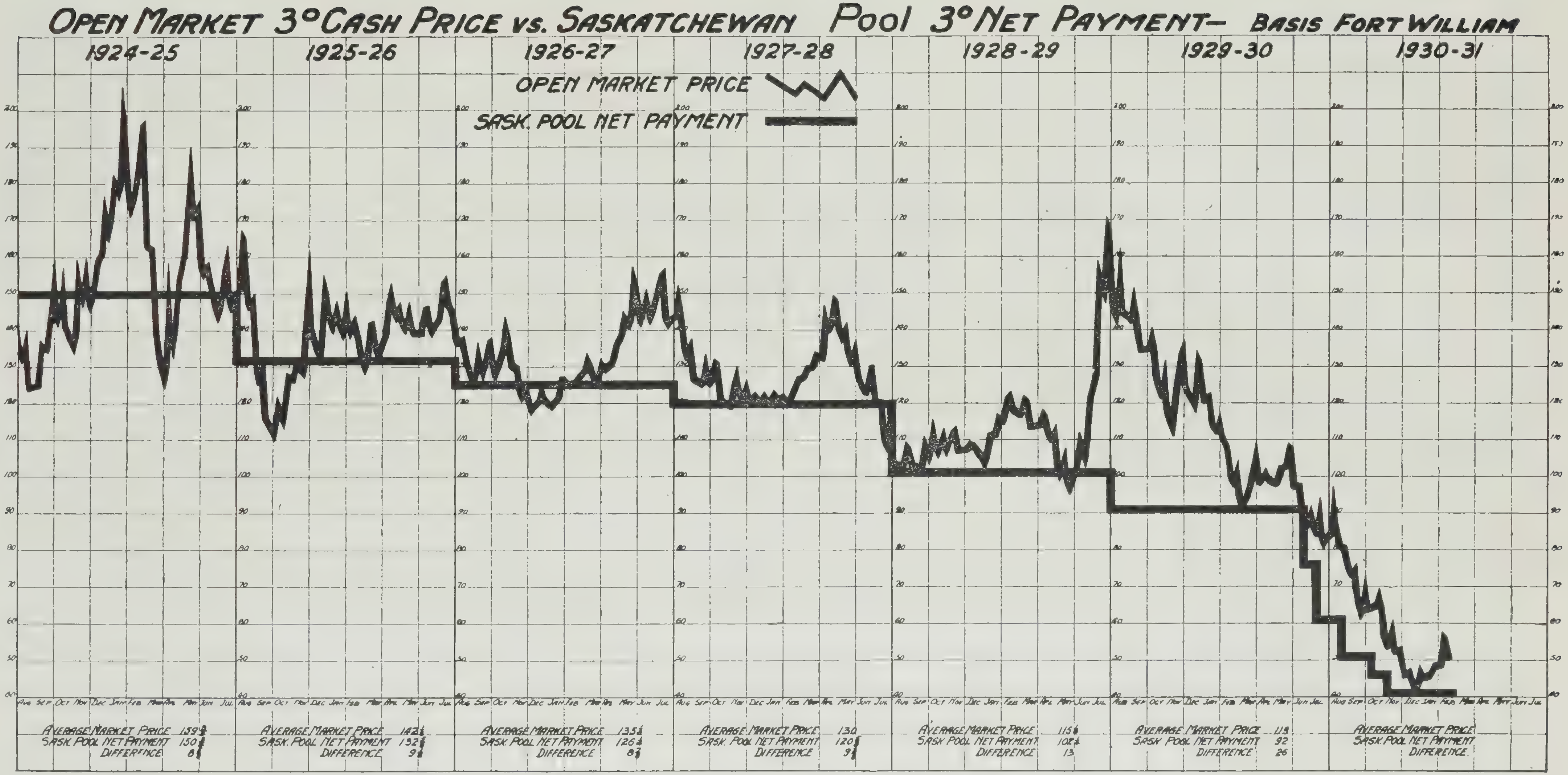
THE CHAIRMAN—I think you, yourself, have placed stress upon parts of it. We will read it all very carefully.

MR. PITBLADO—Doctor Taylor is here and I would like a copy of this so that I can submit it to Doctor Taylor and, if necessary, I can have the benefit of his suggestions to submit to the Commission.

THE CHAIRMAN—You can draw on any source you like, of course, and if the opinion behind it adds to the authority of it, by all means let us have it.

WITNESS—I can let Mr. Pitblado have this copy.

THE CHAIRMAN—That course will be agreeable to you then, Mr. Pitblado? A.—Yes, sir.



The above chart represents 1990 market days, and during this time there are only 230 days on which a farmer sould have sold his Three Northern Wheat at a less price than the Pool net payment shown on the chart. Considering the years 1927-28, 1928-29, 1929-30 and 1930-31 (to date), which represent a total of 1084 market days, there are only 22 days on which a farmer could have sold his Three Northern Wheat at a less price than the Pool net payment.

E. B. MARTIN (called).

By the Chairman:

Q.—Are you a farmer? A.—No, I am in the city of Winnipeg. I have been asked by two or three farmers to read a short statement.

Q.—Not a special association? A.—No.

Q.—Have you the statement here? A.—I have the statement here and signed.

(Statement as below marketd EXHIBIT 47.)

WITNESS—Reading. "Gentlemen:—We, the undersigned Farmer Producers wish to submit our views regarding futures trading as practised by the Winnipeg market, in the absence of a better system we are willing to admit if properly conducted, it does fulfill a useful function, especially as concerns the line elevator companies and firms handling actual grain; but we believe that for some years past the speculating element has grown to such proportions as to totally eclipse the primary object of hedging actual grain being handled by line elevators and grin firms.

"We wish to most emphatically register disapproval to the unbridled short selling of paper grain by speculators, upon the grounds that operating as the members of the Winnipeg Grain Exchange do without any outside jurisdiction over them, this can be open to abuses which are detrimental to the producers of actual grain. Notwithstanding the grain trade's argument that for every seller there must be a buyer, the fact must not be lost sight of that should enough short wheat be poured into the pit, the very people who were buyers in the first instance, became sellers also, either voluntary through lack of margin to protect their holdings, or forced sale by the persistent short selling of the bear element, even the early bulls help to accelerate the downward movement.

We are of the opinion, that before a man is allowed to enter the selling side of the market, he should be in actual possession of the grain he wishes to sell, or it should be limited to growers of grain who have a fair prospect of harvesting the approximate quantity of grain he wishes to sell.

We see by the evidence of the eminent gentlemen who have thus far appeared for the Grain Exchange that there are 463 members, some 70 or 75 who are totally future brokers. One of these gentlemen, a Mr. Cathcart by name, in giving his evidence as reported by the Manitoba Free Press, named as the approximate volume of futures for his firm for a year's trading as one hundred million bushels. Now, gentlemen, supposing we accept Mr. Cathcart's evidence as to quantity as being an average volume of the 463 members, this will give us the staggering amount of forty-six billion, three hundred million bushels traded in one year. When we consider that the five-year average total production of actual wheat in the three prairie provinces is only four hundred million bushels, and then take into account that one half of that is Pool wheat, this only leaves us with two hundred million bushels that requires the services of the hedging market. Does it not seem very absurd that trading in such volume should be at all necessary, the heavy overhead of which, must be paid by some one. Then taking Mr. Cathcart's claim that were it not for lack of speculation, our wheat would not have gone below a dollar a bushel.

"Surely, gentlemen, if this is at all based on fact, we think you will agree with us that it is high time some better system should be instituted such as Central Selling Board which would be governed solely by world economic conditions, rather than have our basic industry ruined by the adopted attitude of speculating public. Then there is Mr. Richardson's evidence, in which he states that the open trades never exceed the total visible wheat in Western Canada. Just how does this gentleman know that? We were under the impression that this was one of the very cleverly guarded secrets of the Clearing House Association, at least it is impossible for the average citizen to obtain any information whatsoever from the Clearing House Association.

"So we would like to refer you to an instance on the Chicago Grain Exchange, a body that must report all transactions to a neutral institution. The instance we have reference to is the open trades on that exchange on April 6th, 1929, as reported by the Winnipeg Tribune, as being one hundred and seven million bushels, while the total visible supply at that date was only about one hundred and twenty-one million. We are of the same opinion as Mr. Chief Justice Brown, that in order to be able to arrive anywhere near a true picture of the case, it will be necessary for the Clearing House Association to supply the total volume of futures traded in during the past five years on an annual basis, for we are of the opinion that the unbridled speculating by every Tom, Dick and Harry, has grown to such proportions as to have become a case of the tail wagging the dog, instead of the dog wagging the tail, and as such, is too open and liable to manipulation by the powers that be, and we must not lose sight of the fact that for the past two years the one and only aim of all the individual grain traders, both cash and future traders, not only in Winnipeg and Canada, but in the United States, Australia, Argentine and Great Britain, to embarrass the Canadian Wheat Pool and the Federal Farm Board of the United States, and we are of the firm belief that more than unusual means have been employed, especially in connection with unbridled short selling of our crops with no other end in view than the total destruction of the Federal Farm Board and the Canadian Wheat Pool, regardless of the untold suffering brought down upon the thousands of hard working farmers and the innocent wives and children who we know, for some time past, are unable in thousands of cases, to obtain the absolute necessities of life. We notice your requests for specific instances, where trading in futures has brought about wide fluctuations none of the eminent gentlemen who appeared on behalf of the Grain Exchange were able to

get their memories functioning clearly. We would like the opportunity of stating a few instances without taking you back 563 years, as Mr. Strange endeavored to do.

"The following are extracted from the Manitoba Free Press during the year 1929:—

"February 25th.—'Drastic break in wheat follows heavy selling, large local house led the selling and general liquidation followed. One large local house began to liquidate in liberal fashion and locals followed. Stop Loss orders were encountered on the break. Prices were down 2¾ cents.' (606,818).

"February 27th.—'Wave of selling hits wheat pit and prices flop. Long holders discouraged by persistent liquidation and dump wheat overboard. Prices down 2⅜ cents.' (753,425).

"March 5th.—'Wheat sinks to lower levels on heavy selling. Chicago led decline early but local pressure carried market to bottom prices down two cents.' (748,315).

"March 22.—'Substantial dip in wheat prices reported Friday. Heavy selling in pit sent market sharply lower. Heavy liquidations of wheat Friday morning, broke prices about 3 cents from previous close. The second break in prices ran the market into numerous Stop Loss order induced further liquidation.'

"March 26th.—'Hectic fifteen minutes in wheat market, see prices flop. Excitement ran high in the wheat market Tuesday, when during a hectic fifteen minutes of trading just prior to noon hour prices broke nearly 4 cents. Eastern longs dump their holdings overboard. Chicago bore the brunt of the liquidation and went down 5 cents.' (338,553).

"April 1st.—'Chicago traders main sellers in local wheat pit. Pressure of offerings from Chicago houses prove to be main bearish factor, prices down 2 cents.' (902,564).

April 3rd.—'Chicago led our wheat to lower points Wednesday. Wheat down 2 cents from previous close. Arthur Cutten, the well-known grain man conveyed the first bearish news.' (290,834).

"April 10th.—'Continental houses dump wheat in last hour to upset steady market.' (365,228).

"April 16th.—'Drastic break in wheat prices is feature Tuesday. Wheat prices break 2 to 2¼ in first hour, finished session with net losses 3½ to 3⅞ cents. News from Washington and Kansas City sent the bear element in the Chicago market on the rampage, and soon Winnipeg was to get its share of selling orders. The break uncovered Stop Loss orders and this, together with short selling kept the pit well supplied with offerings.' (324,486).

"April 22nd.—'May wheat broke 3 cents. Chicago led weakness and heavy Stop Loss selling encountered in local market. Chicago was again responsible for this drive with the May future in the Southern market touching the low level of $1.13¼.' (571,197).

"April 29th.—'Heavy pressure wheat offerings put prices down. These operations were conducted by a local house with New York connections.' (371,949).

"May 4th.—'Break in wheat due largely to dip at Chicago. Wheat broke 2 to 2¼ cents in first hour.' (194,377).

"May 7th.—'Crash in wheat creates hectic scenes locally, net loss of seven to eight cents in wheat values is result of panicky session. Heavy Stop Loss orders were encountered on first break and general liquidation followed.' (178,000).

"May 9th.—'Another slump in wheat prices is market feature. Chicago quotations began to slip. Southern houses became liberal sellers in the local pit and they were joined by longs who dumped their holdings overboard.' (264,000).

"September 24th.—'Wheat came under heavy selling pressure in the closing minutes of trading and the market sank badly to record losses of 3⅝ to 3¼ cents for the day, final minutes found wheat pouring into the pit in large volume and buyers completely swamped.' (5,238,000 against 8,636,404 corresponding day last year).

"September 27th.—'Last hour break in wheat prices due to pressure failure of export demand to continue induced longs to sell out 2⅝ cents down.' (3,063,000 against 7,899,535).

"September 28th.—'Pressure in October wheat depressed market, values weak, holders sold out their nearby wheat before it becomes deliverable on contracts. 2⅞ to 2¼ down. (3,192,000 against 7,725,266).

"October 3rd.—'Wheat staggered in final hour with heavy offerings short selling aid to be a factor in late weakness, 2⅜ to 2 cents lower.' (3,895,000 against 6,121,216).

"October 10th.—'Break in wheat due to hedging and poor demand. Elevator interests heavy sellers in pit.' (2,562,000 against 4,168,996).

"October 14th.—'Liberal selling in wheat market put prices down weak and exports negligible and local sentiment bearish down 1⅝.' (2,154,000 against 2,885,088).

"October 16th—'Four cents break in wheat prices, offerings heavy, selling pressure in wheat started with opening bell, and continued for a greater part of Wednesday's session. Prices showed net losses at 4¼ to 3¾ cents. Liquidations of various interests short selling and some hedging sales by elevator interests.' (2,054,000 against 3,496,114).

"October 19th—'Wheat slumps on liquidation and Stop Loss sales. Heavy liquidation by tired longs followed by Stop Loss selling and good sales ran prices down 3¼ cents.' (2,035,000).

"October 23rd.—'Three cent dip in wheat seen in final hour. Prices 3 cents down.'

"October 24th.—'Market caved in when avalanche of wheat sold. Chaos is the only word that could describe the state of the wheat market between 11.15 and 11.30 Thursday

morning when millions of bushels of wheat were being literally poured into the grain pits of Chicago and Winnipeg, breaking local prices 14½ cents.'

"Now, gentlemen, our contention is that were it not for the fact that trading in paper wheat has grown to such proportions such violent fluctuations would not happen, and that trading in futures should be limited to growers of wheat.

"We are presenting as an Exhibit (attached) a confirmation form used by a certain firm of brokers and wish to draw your attention to that part of the paragraph with respect to the party accepting actual delivery of grain. We maintain that if this form of contract is used by the majority of the brokers, such trading is a fraud, as practically none of the speculators ever contemplate the actual delivery of the grain, and we also attach an advertisement taken from the Manitoba Free Press of a certain firm, advising the trading in futures on the Liverpool market because it is not subject to manipulation. It might be interesting to the Commission to know what their inference is?"

S. HOOD SMITH (called).

THE CHAIRMAN—What is your occupation? A.—Insurance.

Q.—I only received your leter this morning to see the points you are making and therefore you come at the end. Could you state in your own way in a few minutes your answer to our main question? Our main question is: "What effect, if any, has trade in futures on the price received by the producer." We will try to keep that down. Sometimes we stop to take fares on the way. A.—As I have explained to you, my view is based on an experience of four continents, and a lifetime spent in the industry, twenty-five years, but of a family that has been engaged in it over one-hundred. We realize when we buy wheat in Europe, particularly through the Liverpool market, that Canada forms a very small proportion of the world's total supply. That was well brought out by Mr. Evans several days ago when he remarked that the Canadian crop formed only a small proportion of the eighteen hundred millions purchased by Europe. The effect of the futures market in Winnipeg is in my opinion, and I believe that is based on Liverpool experience entirely. It is quite true that events from time to time arise, such as the attempt years ago on the part of the Leiter interests to corner in Chicago. They do occasionally occur locally, but the condition the world over is being watched by the actual producer, whether wheat or flour and is of great importance to future transactions, and is such that several factors enter into the situation which have not been touched upon at all. I saw Mr. Evans produce a nice array of loaves yesterday, which I may say from the viewpoint of British and foreign millers practically has no value whatever. Your European miller uses no less than three mixtures which simply reflects the weight of science as applied to your raw material, and it is possible for the continental miller to turn out an article just as good as the loaf you get from No. 2 Manitoba wheat. We do not see much No. 1 on the other side.

MR. COMMISSIONER EVANS—Did you ever see any experiment conducted on that line? A.—I have been many years engaged in that myself.

Q.—But the means have not been on the market except for a few years? A.—Since 1908 across the water.

Q.—Would you be surprised to know there is not any chemical improver, even the best on the market, as good as a 7½ per cent mixture of No. 1 Northern wheat? A.—Yes, I certainly would.

By the Chairman:

Q.—Does that bear on these facts, the question of the futures? A.—I submit it does. They all have a bearing in connection with the futures market in Winnipeg.

Q.—I hardly think that bears on the point? A.—At times it is a mirror and it may be blurred, but it is a fairly accurate reflection of the situation, and you have been busily engaged in hunting bears for the last few days. It may be germane to this enquiry that one of the key men of the Argentine made a short quiet visit through the States and Canada in the summer of 1928, and met me in Toronto, and we had a discussion as to the probable trend of world prices. I pointed out to him the facts which he was very well ecquainted with that there had been an artificial range in prices on this continent and particularly in Winnipeg of probably fifteen cents a bushel above what was the normal world's value.

THE CHAIRMAN—We have had it here several times that in setting up a bullish feeling in Canada last year, or 1929, they forgot the Argentine. A.—They did more than forget the Argentine. They just completely ignored it. They overlooked it altogether. But the point I put to him then was we have had nine prices over four years and by the law of average there was to be a break if the 1929 crop was a big crop, that the market would break of its own weight and it would be a question as to who could throw their wheat on the European market quickest, Argentine or Canada. If there was a crop failure someone with the surplus continually piling up would be the country to get in the field first. 1929 came along and we had a failure here, certain facts were published and we saw we were going to be held. The Argentine is not asleep, and all European importers are experts in the Argentine. They watch everything, and incidntally make good business out of it.

THE CHAIRMAN—Have counsel anything to ask? If you would like to submit any written statement on the point you have touched upon, we will be very glad to receive it, Mr. Smith.

MR. PITBLADO—We promised you Mr. Chairman, when we were giving you the total receipts and purchases of wheat exclusive of the Pool wheat for a certain year, we promised to produce that to you for the crop year of 1930-31. I have it here, and can put it in and read it to you, or I can tell the witness who got it together whichever is shorter.

THE CHAIRMAN—Probably it would be shorter to put it in.

MR. PITBLADO—This is a statement of the total receipts and purchases of wheat exclusive of Pool wheat.

(Statement of total receipts and purchases of wheat, exclusive of Pool wheat, produced and marked EXHIBIT 48.)

MR. PITBLADO—And the weighted average price paid, basis 1 Northern in store, Fort William, return from eighteen elevator companies. Do you remember the connection?

THE CHAIRMAN—I remember the point.

MR. PITBLADO—This gives on the 31st of August the receipts to date. On that date the purchases to date. The percentage purchased to date. The monthly average price paid to producers basis No. 1 Northern, Fort William, that were carried forward, receipts to date.

THE CHAIRMAN—It brings the other total down to date with a slightly different number of elevator companies.

MR. PITBLADO—Yes, and shows the weighted average price down to date was 67/9.

MR. PITBLADO—The only other point I had was someone wanted information from the Northwest Grain Dealers' Association as to how the price is sent out.

MR. COMMISSIONER BROWN—You stated it was contnained in the Turgeon report.

MR. PITBLADO—Yes, with this exception, that it now goes out by radio, and the price is given by radio. The same information is given to the elevator operator as is given to the farmer who has a radio. That is, the farmer and the elevator operators both get through the radio information, the price that is to be paid at the country point. They also get the cash closing price.

THE CHAIRMAN—That was on the cards we had last night?

MR. PITBLADO—Of the Winnipeg futures. That all goes out. The cash price is based upon a freight rate of 25 cents, I think it is. One price sent out is based on a 25 cent freight rate.

THE CHAIRMAN—They know their own differentials from that.

MR. COMMISSIONER BROWN—And that price that is sent out is related to the price the Cash Committee of the Exchange records the day before.

MR. PITBLADO—Yes, and that is sent out along with this other.

Then there is one other reference. Perhaps in examining Mr. Parker last night it was somewhat my fault in not explaining the cash brokers' statement, which was never read. There was a statement put in, I think it was Exhibit 12. I am calling attention to this because we got at a little cross purposes last night, and I should have explained what the broker and these other people do.

The cash grain brokers constitute a group of members of the Winnipeg Grain Exchange whose functions and duties cover a highly specialized field. They act as intermediaries between members of the Exchange solely. The duties of the cash grain brokers consists of canvassing the trade continually for bids or offers of cash grain. He calls on millers, exporters and other interested buyers for their requirements, and canvasses the elevators, commission houses and other sellers to ascertain the amounts of grain for sale. He is paid by the seller, consequently his interest is identical with the seller, to obtain the best possible price for the grain for sale.

THE CHAIRMAN—I have read this over carefully.

MR. PITBLADO—That explains how these cash prices are known at the end of the day.

MR. COMMISSIONER BROWN—That is why we wanted the chairman of that committee to amplify or explain the statement that has been filed.

MR. PITBLADO—I could call another witness to show this, that the trade watch this, that the elevator people who have grain for sale are busily watching it all the time, the cash sales that are being made, because they want to sell, and the bide being made, and they watch these prices put on the board, because they are trading and trying to sell on those prices.

MR. COMMISSIONER EVANS—And that closing price at the end of the day cannot be lower than the closing option price of grain carrying charge in any case.

MR. PITBLADO—Exactly. I will hand to the Board copies of the bylaws of the Grain Exchange, and copies of the last annual report. I don't think there is anything else you asked for.

THE CHAIRMAN—Mr. Sweatman, you might make it known that if anybody had wanted to give evidence we are willing and open to receive statements and expressions, but mere reiterations of things we have already had fully represented won't help us very much.

Statement given to Royal Grain Commission by Dr. A. E. Taylor referred to by Mr. Pitblado on page 350.

The statement made on behalf of the Canadian Wheat Pools by Cairns late in the final open session of the hearings of the Commission in Winnipeg contains one particular and somewhat novel pronouncement. It is urged that the advantages of trading in wheat futures on established grain exchanges is conditioned on the existence of a free market, with open competition between international buyers and sellers of wheat. It is urged that a free market does not exist today and it is implied that a restoration of the lost freedom of trade on the international market is not to be expected under forseeable circumstances.

It is of course a truism that trading in futures and hedging of international transactions are contingent upon the existence of a free market. What is termed "free" competition is of course always relative. During the war, trading in futures was suspended since purchases of wheat were almost entirely in the hands of governmental boards, prices were fixed and to a considerable extent the trade was based on quotas and allocations. It is urged by Cairns that now the world, in time of peace, is again approaching a corresponding situation. It seems to have been averred, by implication if not explicitly, in the statement that at present such a degree of official control over sale and purchase of wheat exists in the world as to render illusory the use of the adjective "free" in the term "free market."

The various instruments which are grouped under the heading of "implements in restraint of free trade" are protective tariffs, milling regulations, mixing regulations, established formulas for the composition of bread, export subsidies, mergers of mills in importing countries, mergers of mills in exporting countries, mergers of producers in importing and exporting countries, state control of importation and distribution in importing countries, quotas, bulk purchase and sale on the basis of private negotiation resting at least in part on other considerations than price. The list is a formidable one and somewhere in the trading world an illustration can be found for each instance: Norway covers her flour requirement through governmental purchase; Italy contracted for a large purchase of wheat in Argentina; the d'Abernon proposal contemplated an exchange of trade between United Kingdom and Argentina; the Federal Farm Board once tried to sell a large block of wheat to Italy; the Canadian Pool for several years sold direct to European millers; in the principal importing countries of Europe mill mergers centralized purchases in a few hands; and so forth. Nevertheless, with due appreciation of the items and with all due deprecation, it does not follow that there is today no free and competitive international market for wheat. These various impediments in the course of trade do hamper transactions, divert and pervert them, render them more costly, and often impose elements of indirect as well as direct costs. Without question these constitute a burden upon the international market. Without question the facility of movement of wheat over the world would be greater, and the margin between producers' and consumers' prices would be narrower, in the absence of these artificial impediments and restrictions. It does not follow that mergers in different countries compete less than their component members would. Marketing by political negotiation has disturbed, but not replaced, marketing on commercial incentives.

But this all is not, in an objective sense, equivalent to the statement that under these circumstances, the international trading in wheat futures has ceased to have importance. Quite the contrary. It has become more important than ever, since it remains the generally available and most effective instrument for the maintenance of private trade. If the grain exchanges were to be closed and trading in futures abolished, this would have the effect of surrender to what may be termed "political marketing." During the war a complete surrender was necessary. In peace surrender would represent a catastrophe. If the grain exchanges were closed and trading in futurs abolished, this would mean that the producers in the surplus countries would sell their wheat by negotiation to governmental buying bodies in importing countries. It is scarcely to be doubted that if the world market for wheat became a market by negotiation in surplus producing countries the governments would be invoked to represent the interests of their producers. Correspondingly, in importing countries, the governments would be invoked to mediate between domestic producers and consumers dependent upon imports and would become the buying and selling agencies, as has been recently well illustrated in the case of the German Rye Board. Deplorable as is the situation, a surrender by closure of the grain exchanges and abolition of the trading in futures would make the situation worse, because in the absence of the existing international system of trade there would be no force to hold wheat nationalism in bounds.

When one comes more specifically to appraise the various circumstances in restraint of free trade existing in importing and exporting countries at the present time, it becomes clear that this is to a considerable extent (in my judgment, to a predominating extent) an ephemeral expression of the present price situation. Without entering into an analysis of the extent to which the present deplorable state of trade is a secular phenomenon, resting directly or indirectly on monetary considerations, or is a cyclical phenomenon of the kind commonly termed a "trade cycle," in either event we must assume it to be temporary. Certainly if it is cyclical, it will be temporary. In any event, if it is not temporary but permanent, it will make little difference in the world-wide depression by what mechanism of trading wheat is distributed. The hand-to-mouth buying and the aversion to make commitments for any considerable distance in the future, which

is now characteristic of the world wheat market, is a direct expression of low purchasing capacity and of a low price level and we may be sure will be corrected so soon as it becomes clear that continued decline of the present level is no longer in prospect. To throw into the discard at such a time a long standing and valued instrument of competitive trade would be only an additional contribution to disaster. It seems impossible to believe (with the retention of any optimism whatsoever) that the world is going to continue to expand the subversive types of control of trade; impossible not to believe that with restoration of commerce, with improvement in prosperity, the direction of developments will be in the opposite direction, in the direction of correcting, in the direction of building down of state control, in the direction of the lowering of impediments to trade, whether at frontiers or otherwise.

In short, this part of the brief of Cairns predicates a reaction of the world to governmental and other centralized control of trade, to which assent seems most difficult. In any event, it seems to the commentator that the very existence of such forms of impediment to trade furnish strong grounds for the retention of an established instrument in international trade, which is based on considerations lying outside of the short-sighted national and special interests.